



# BALIC – Market Insights

## Sep 2025





# KEY THEMES COVERED

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**GST Rate  
Rationalization**

**Global Macros &  
Markets**

**Domestic Macros**

**Flows**

**Valuations**

**Market  
Outlook & View**

# GST RATE RATIONALIZATION



# GST 2.0 – A STRUCTURAL REFORM MILESTONE

- **Growth Impetus** – The GST Council announced a broad rationalization of rates, effective 22nd September, moving most mass consumption items to lower slabs of 5% and 18%. This simplified structure is expected to boost consumption demand, **potentially providing a 30–100 bps boost to India’s GDP growth.**
- **Inflation Moderation** – Lower GST on essentials, coupled with the abolition of compensation cess (except on tobacco until end-CY2025), may help headline inflation undershoot RBI’s 3.1% forecast, creating room for a supportive rate environment.
- **Corporate Earnings Tailwind** – Reduced GST rates are likely to enhance disposable incomes, benefiting FMCG, autos, consumer durables, and retail, with earnings momentum expected to strengthen from Q3 FY26 onwards.
- **Fiscal Efficiency** – While the government estimates a revenue impact of Rs. 480 bn (based on FY2024 consumption base), simplification should reduce classification disputes, correct inverted duty structures, and widen the effective tax base.
- **Market Sentiment Booster** – GST 2.0 is viewed as a landmark structural reform, reinforcing India’s long-term consumption-driven growth story and lifting investor confidence in equity markets.

# GLOBAL MACROS & MARKETS

# INDIA EQUITY MARKET POST SHORT-TERM DRAG DESPITE STRONG LONG-TERM RETURNS

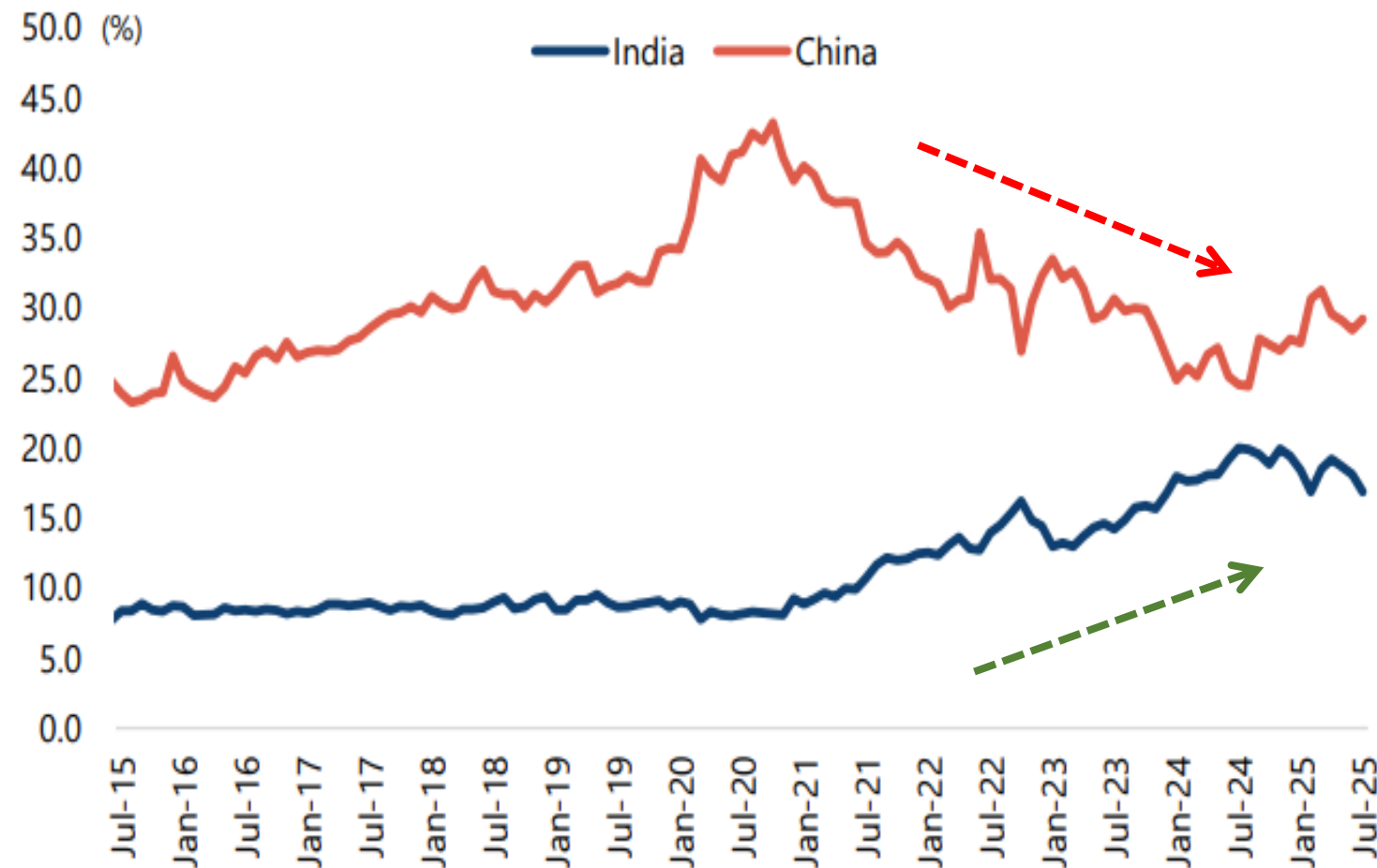
## PERFORMANCE AS ON 29<sup>TH</sup> AUGUST 2025

Index Name	Country / Region	1 Yr	2 Yrs	3 Yrs	5 Yrs	7 Yrs	10 Yrs	15 Yrs.
<b>Nifty 50</b>	<b>India</b>	<b>-3.2%</b>	<b>12.7%</b>	<b>11.2%</b>	<b>16.5%</b>	<b>11.1%</b>	<b>11.8%</b>	<b>10.6%</b>
TSEC TAIEX	Taiwan	8.8%	20.7%	17.1%	14.0%	11.9%	11.5%	8.0%
FSE DAX TR	Germany	26.4%	22.5%	23.1%	13.1%	9.9%	8.8%	9.7%
Nikkei 225 Average	Japan	10.5%	14.5%	15.0%	13.1%	9.3%	8.5%	11.1%
S&P 500	United States	14.4%	19.7%	17.8%	13.0%	12.1%	12.6%	12.9%
MSCI World	World	14.1%	18.3%	16.7%	11.2%	9.8%	9.8%	9.4%
FTSE/SGX STI	Singapore	24.0%	14.9%	9.9%	11.0%	4.1%	3.9%	2.5%
CAC 40	France	1.0%	2.6%	8.0%	9.3%	5.2%	5.2%	5.4%
FTSE 100	United Kingdom	9.7%	11.1%	8.1%	9.0%	3.1%	3.9%	3.8%
JSX Composite	Indonesia	2.1%	6.1%	2.9%	8.4%	3.8%	5.7%	6.4%
FTSE SET All Share	Thailand	8.7%	10.7%	7.5%	8.3%	2.8%	3.8%	4.2%
S&P/ASX 200	Australia	10.9%	10.8%	8.7%	8.2%	5.1%	5.6%	4.9%
BOVESPA TR	Brazil	4.0%	10.6%	8.9%	7.3%	9.1%	11.7%	5.3%
KOSPI	South Korea	19.1%	11.7%	8.8%	6.5%	4.6%	5.1%	4.1%
MSCI EM	Emerging Markets	14.4%	13.3%	8.2%	2.7%	2.5%	4.4%	1.7%
MSCI AC Asia Ex Japan	Asia Ex Japan	16.9%	15.1%	8.7%	2.6%	3.1%	5.3%	3.7%
Shanghai Composite	China	35.7%	11.2%	6.4%	2.6%	5.1%	1.9%	2.6%
FTSE Bursa Malaysia KLCI	Malaysia	-6.2%	4.2%	1.4%	0.6%	-2.0%	-0.2%	0.7%
Hang Seng	Hong Kong	39.4%	16.8%	7.9%	-0.1%	-1.5%	1.5%	1.3%

Source : Bloomberg. Returns are in local currency of index, and returns greater than 1 year are CAGR Date Sorted on the basis of 5 Yrs. return in descending order

- Over the long-term Indian equity market has been among the top performing major markets, globally.
- While India's long-term returns remain strong, the Nifty 50 has delivered the weakest 1-year performance (-3.2%) among peers, highlighting near-term challenges.
- Over 5, 7, 10, and 15-year basis, the Indian equity market has consistently delivered double-digit returns, ranking among the top 5 global equity markets.

# INDIA vs. CHINA WEIGHT IN MSCI EMERGING MARKET INDEX

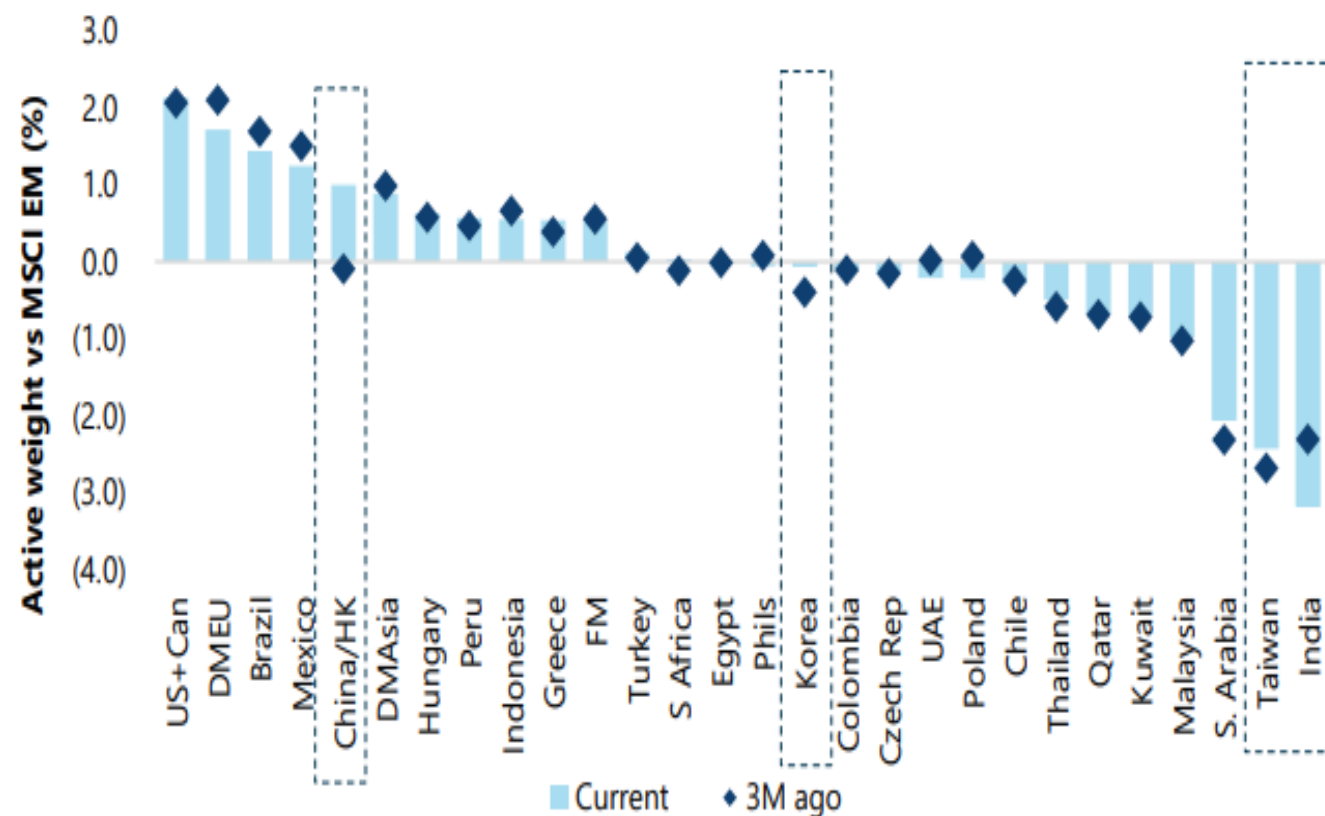


Source: Bloomberg, Jefferies

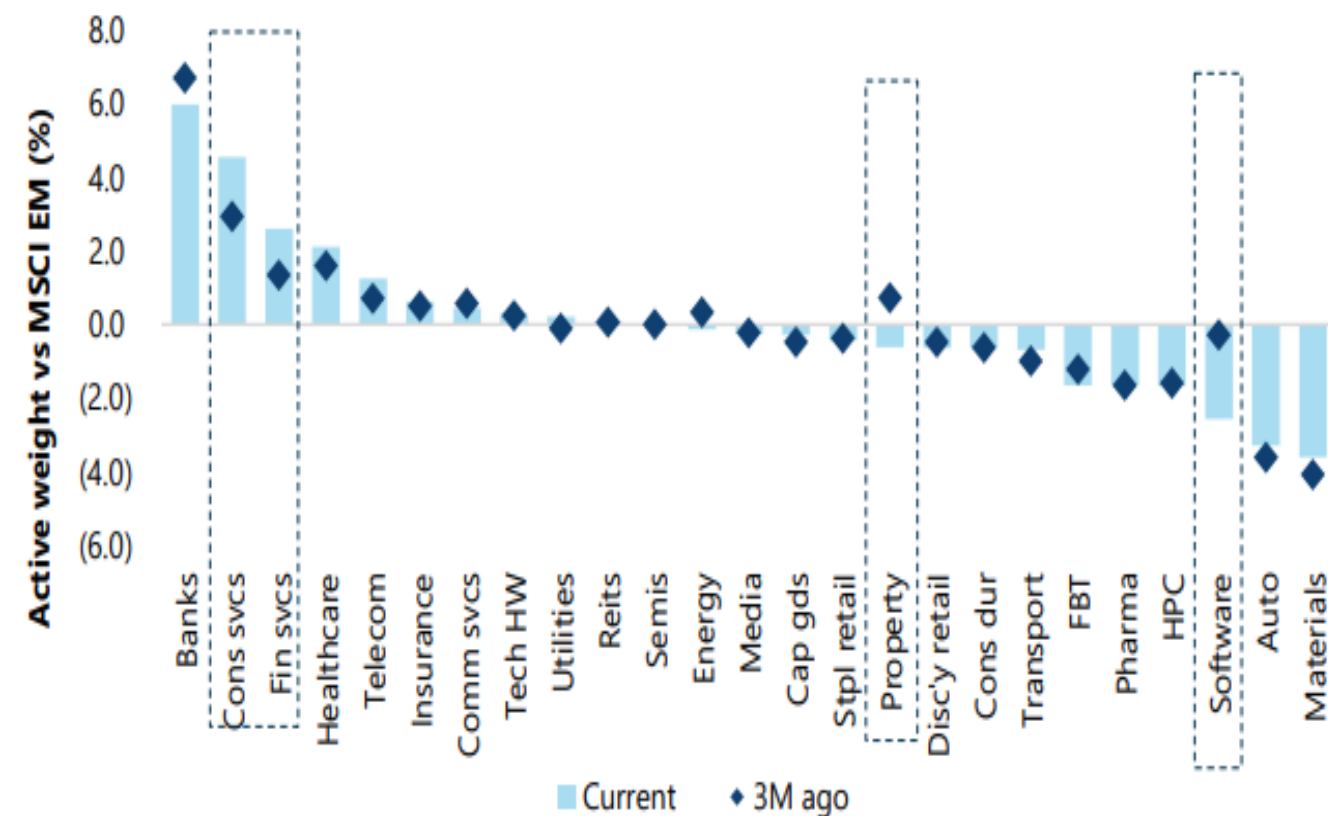
- **India's Rising Share:** India's MSCI EM weight doubled from ~8% in 2015 to ~20% in 2024, driven by equity outperformance, strong domestic flows, and FPI reallocation.
- **China's Declining Dominance:** China's weight fell from 45% in 2020 to ~30%, amid growth slowdown and diversification by EM investors.
- **Structural Shift:** The narrowing gap signals a rebalancing — India gaining prominence as China's dominance fades, reinforcing India as a core EM allocation.

# EM LONG-ONLY FUNDS - CUT INDIA; ADDED TO CHINA/HK

EM long only active funds country positioning (Jul'25 vs 3M ago)



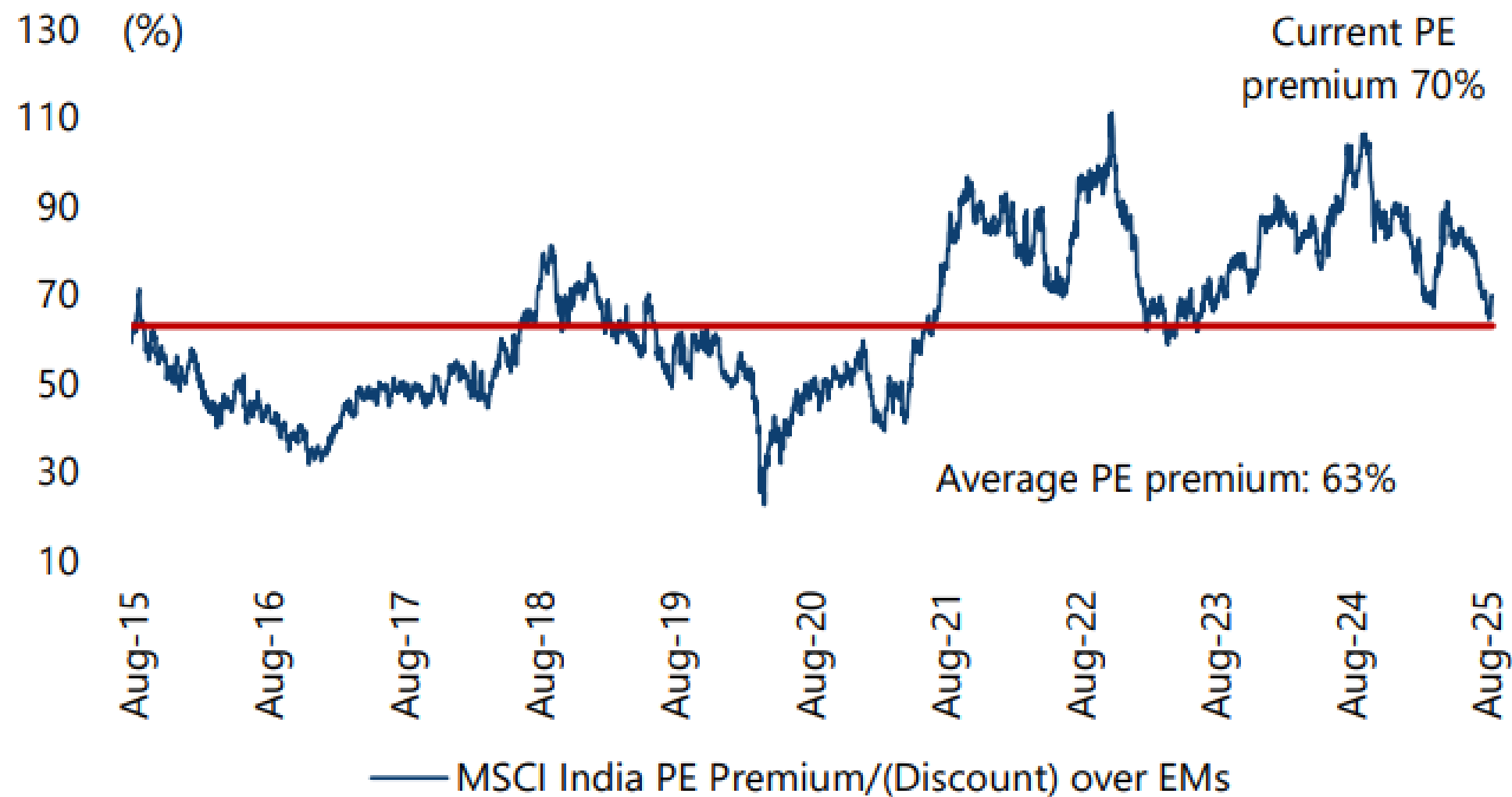
EM long only active funds – India sector active wt (Jul'25 vs 3M ago)



- Emerging Market long-only funds remain significantly underweight India, reflecting cautious positioning.



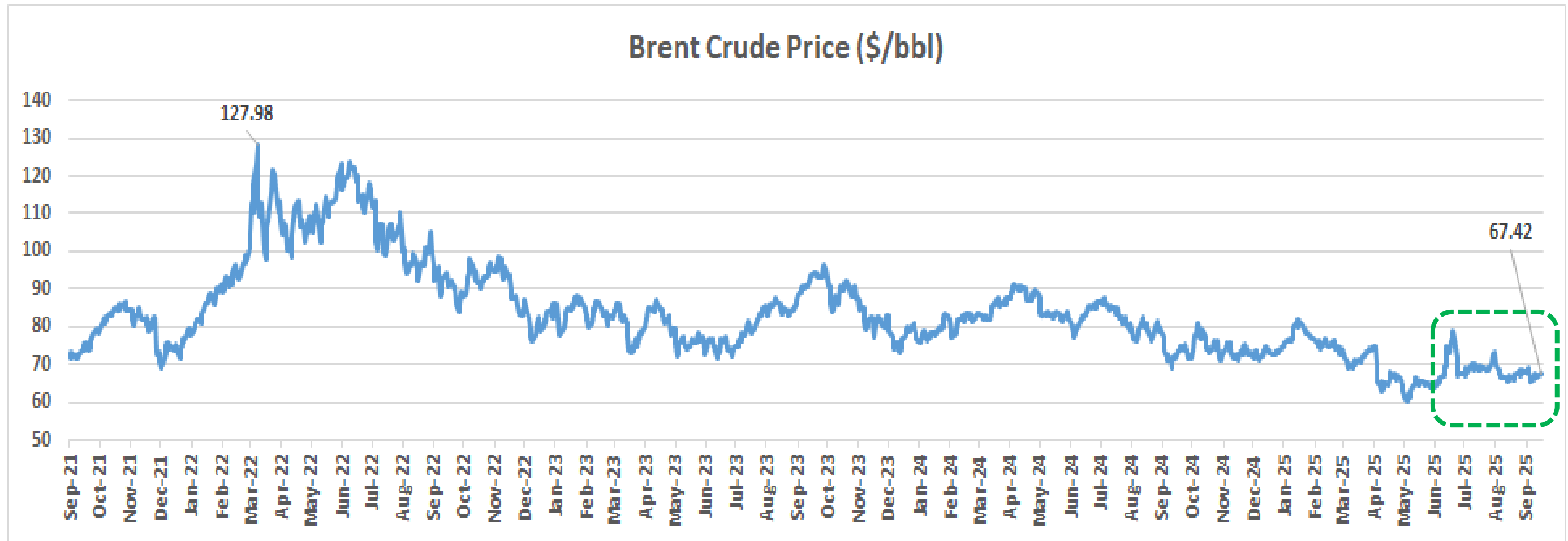
# INDIA'S VALUATION PREMIUM OVER EMERGING MARKETS



Source: Bloomberg, Jefferies

- India has traditionally traded at a premium to EMs, but its current valuation premium is closer to long-term average levels.

# CRUDE OIL PRICES REMAINED SUBDUED

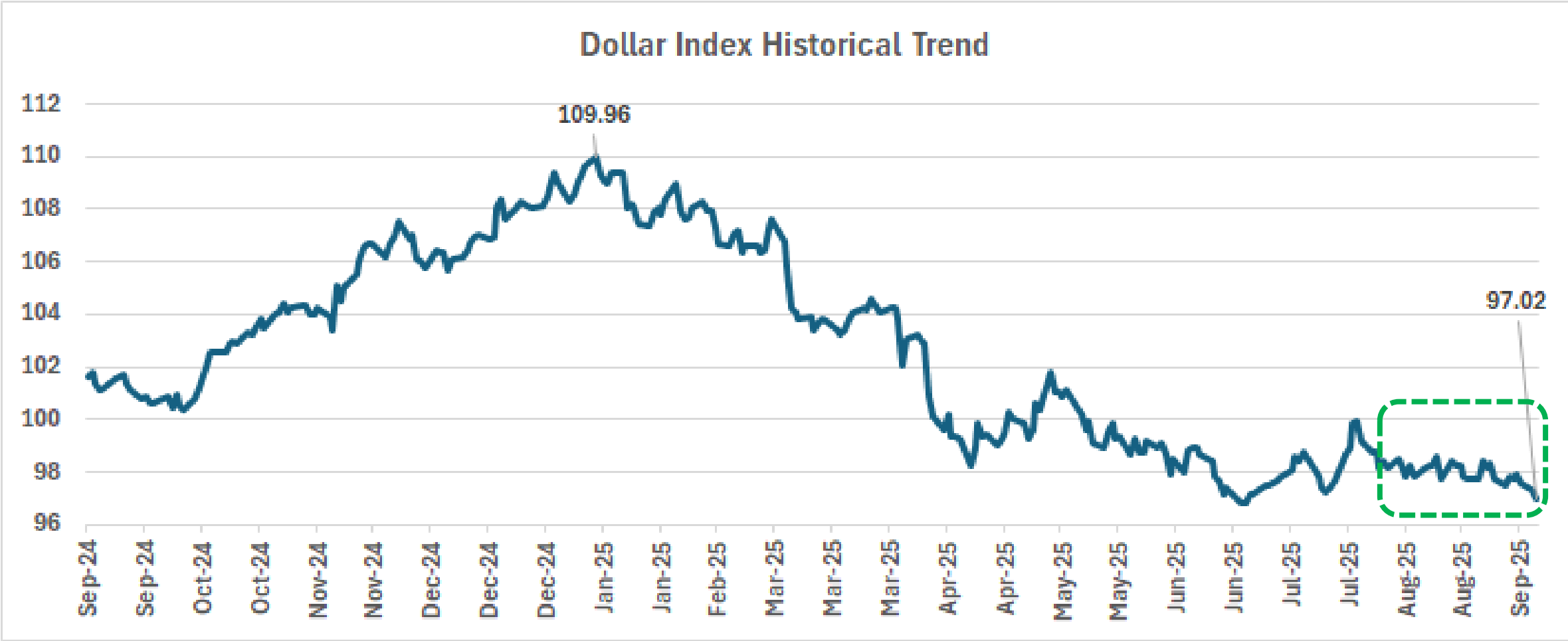


Source: Bloomberg

- Continued uncertainty in global trade and expectations of slower growth have led to a moderation in crude oil prices.
- However, Brent crude prices remain volatile due to geopolitical conflicts.
- Sustained lower crude oil prices provide an impetus to the disinflation trend as ~85 -90% of India's crude consumption occurs through imports.



# U.S. DOLLAR CONTINUES TO REMAIN WEAK

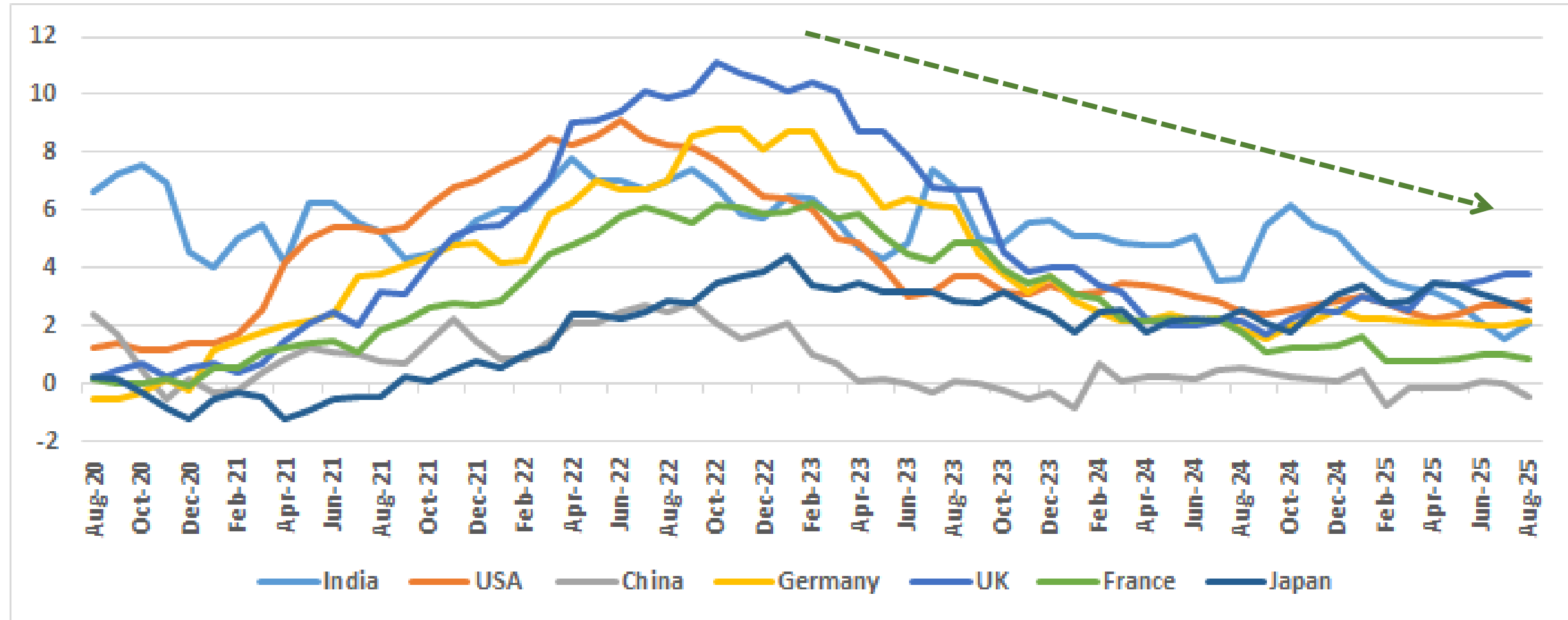


Source: Bloomberg, US Department of Treasury, CEIC  
\* The Dollar Index (DXY) is a weighted measure of the U.S. dollar's value relative to a basket of major foreign currencies, reflecting its overall strength or weakness.

- The U.S. Dollar Index has steadily declined from around 110 in Jan 2025 to 97.02 as on 16 Sep 2025 (~12% down from its peak), reflecting sustained weakness.

# GLOBAL INFLATION CONTINUES TO MODERATE, EXCEPT THE U.S.

CPI (INFLATION, YoY %)

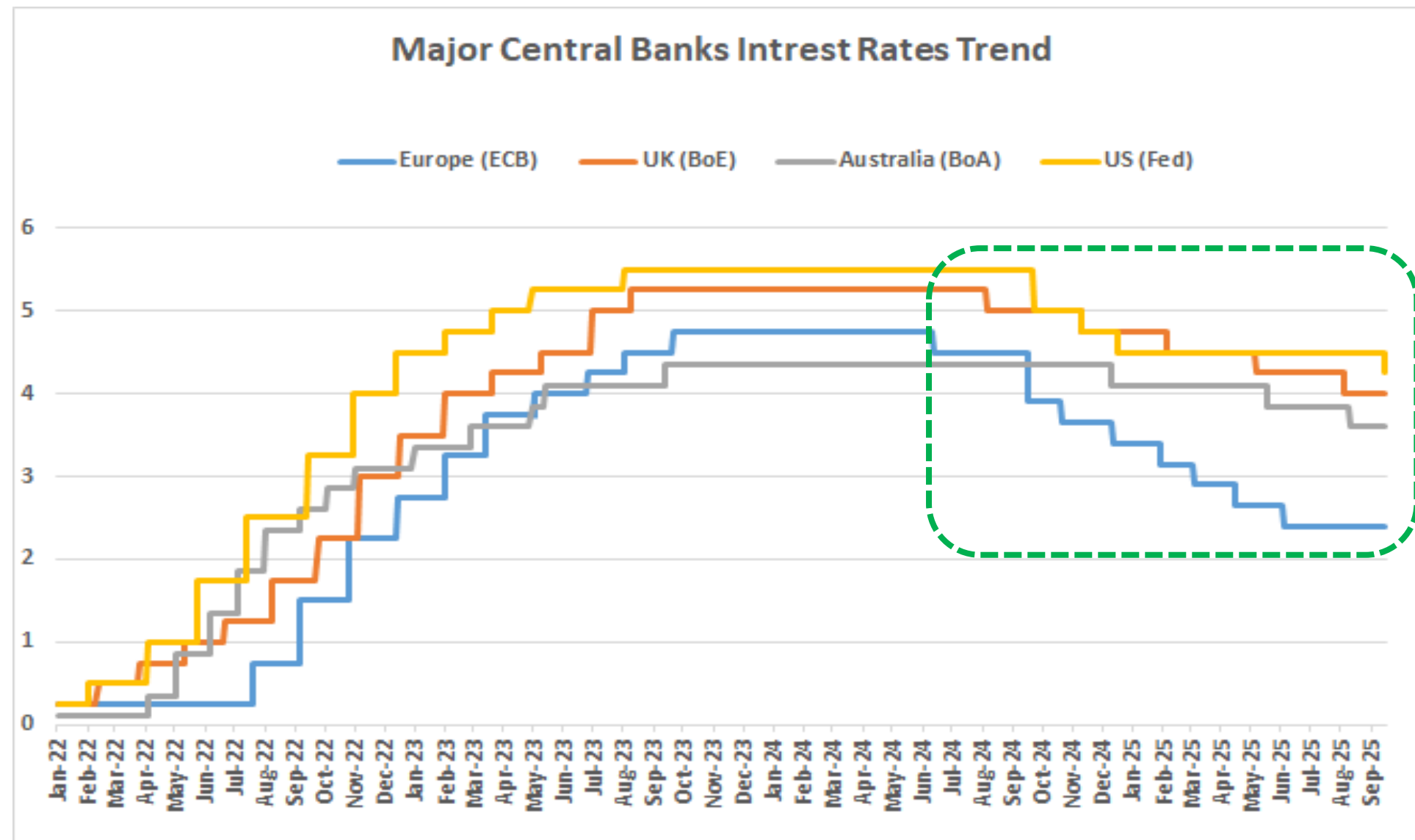


Source: Bloomberg

- Headline inflation continues to moderate in most of global markets.
- However, this trend is under threat due to the lingering concerns over US tariffs.



# CENTRAL BANKS ADOPT WAIT-AND-WATCH APPROACH ON RATES

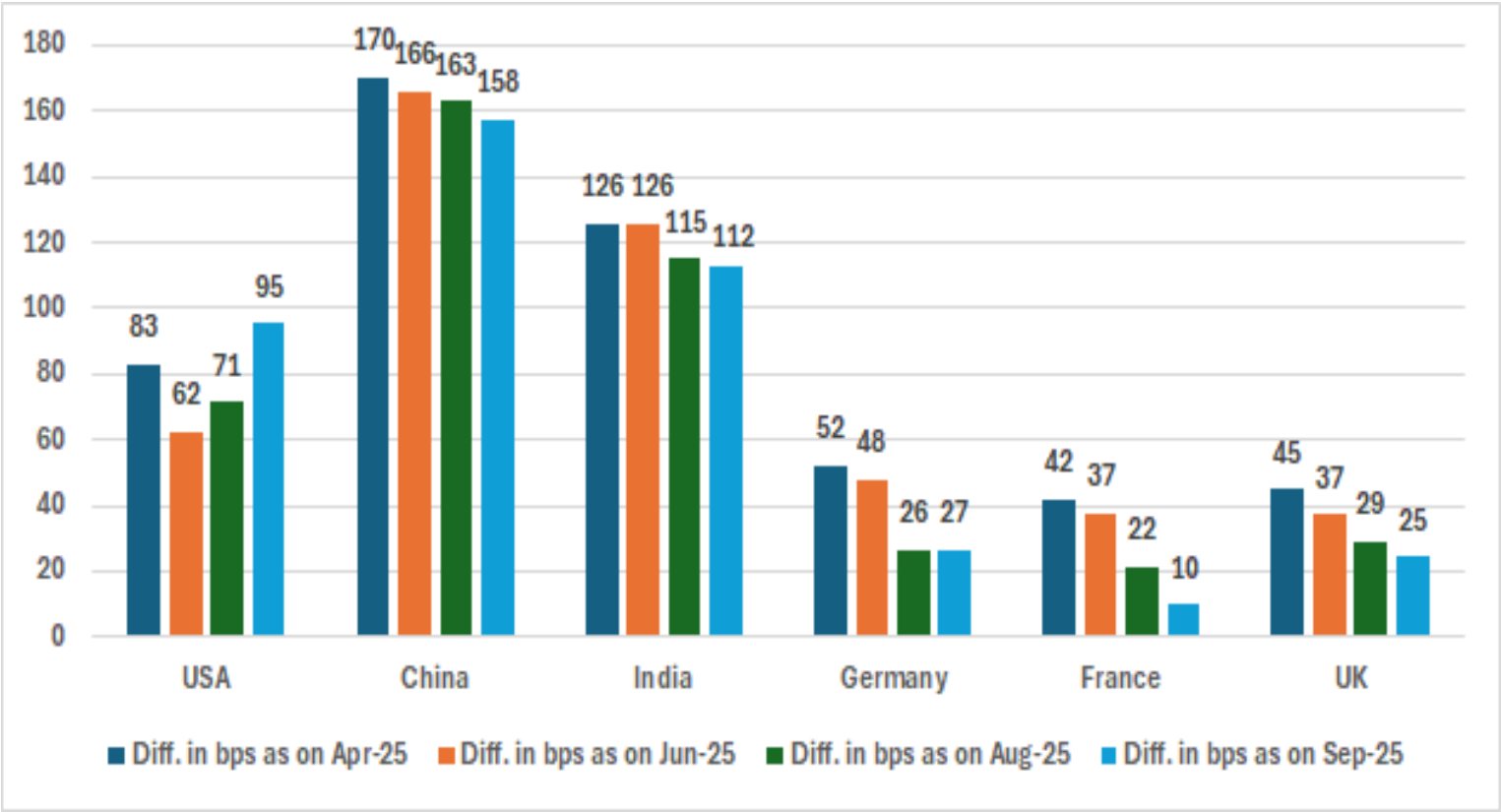


Source: Bloomberg

- The US Fed cut rate by 25 bps (to 4.00-4.25%), calling it a 'risk-measured move' to cushion against slowing labour market, while leaving room for further easing if needed.
- While most of the other central banks globally are signalling caution, awaiting clearer signs of economic slowdown or disinflation before further rate action.

# 10-YEAR BOND YIELDS RISE DESPITE WIDESPREAD GLOBAL RATE CUTS

## FROM THE PEAK, TOTAL BASIS POINTS FALL IN 10-YR BOND YIELDS



Source: Bloomberg

Country	Peak Day	Peak Yield	Yield as on				Diff. in bps as on			
			Apr	Jun	Aug	Sep	Apr	Jun	Aug	Sep
USA	19-10-2023	4.99	4.16	4.37	4.28	4.04	83	62	71	95
China	07-01-2021	3.36	1.66	1.70	1.73	1.79	170	166	163	158
India	16-06-2022	7.62	6.36	6.36	6.47	6.49	126	126	115	112
Germany	20-09-2023	2.97	2.44	2.49	2.70	2.70	52	48	26	27
France	11-03-2025	3.59	3.17	3.21	3.37	3.49	42	37	22	10
UK	10-01-2025	4.89	4.44	4.52	4.60	4.64	45	37	29	25

- The recent uptick in yields across geographies have been driven by a range of factors, including rising fiscal deficits, tariff-related risks, and a gradual economic recovery. However, India has remained relatively resilient in this environment.
- However, Europe back near highs; US mid-range; India/China still well below.

# DOMESTIC MACROS

# FY2026 MONSOON: RAINFALL MOMENTUM SLOWS, BUT STAYS ABOVE LTV

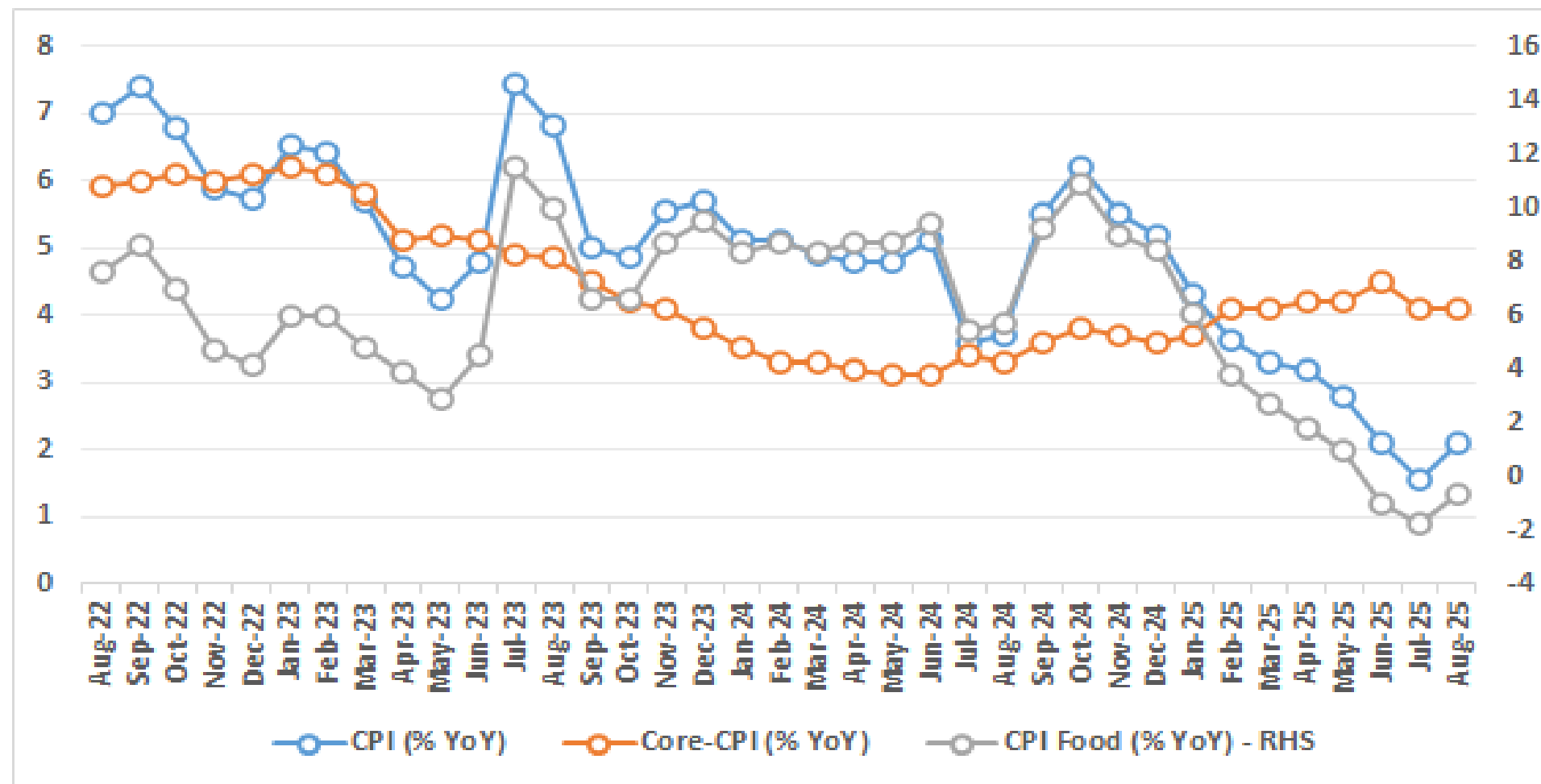


- Cumulatively (1 Jun-12 Sep 2025), rainfall was 7% above long-term average. On a cumulative basis, rainfall was above-normal in north, west, central and south India while below-normal in east India
- Basin-wise reservoir levels has remained in surplus.



# INDIA'S INFLATION: INCHED UP IN JULY'25

INFLATION TREND (in %)

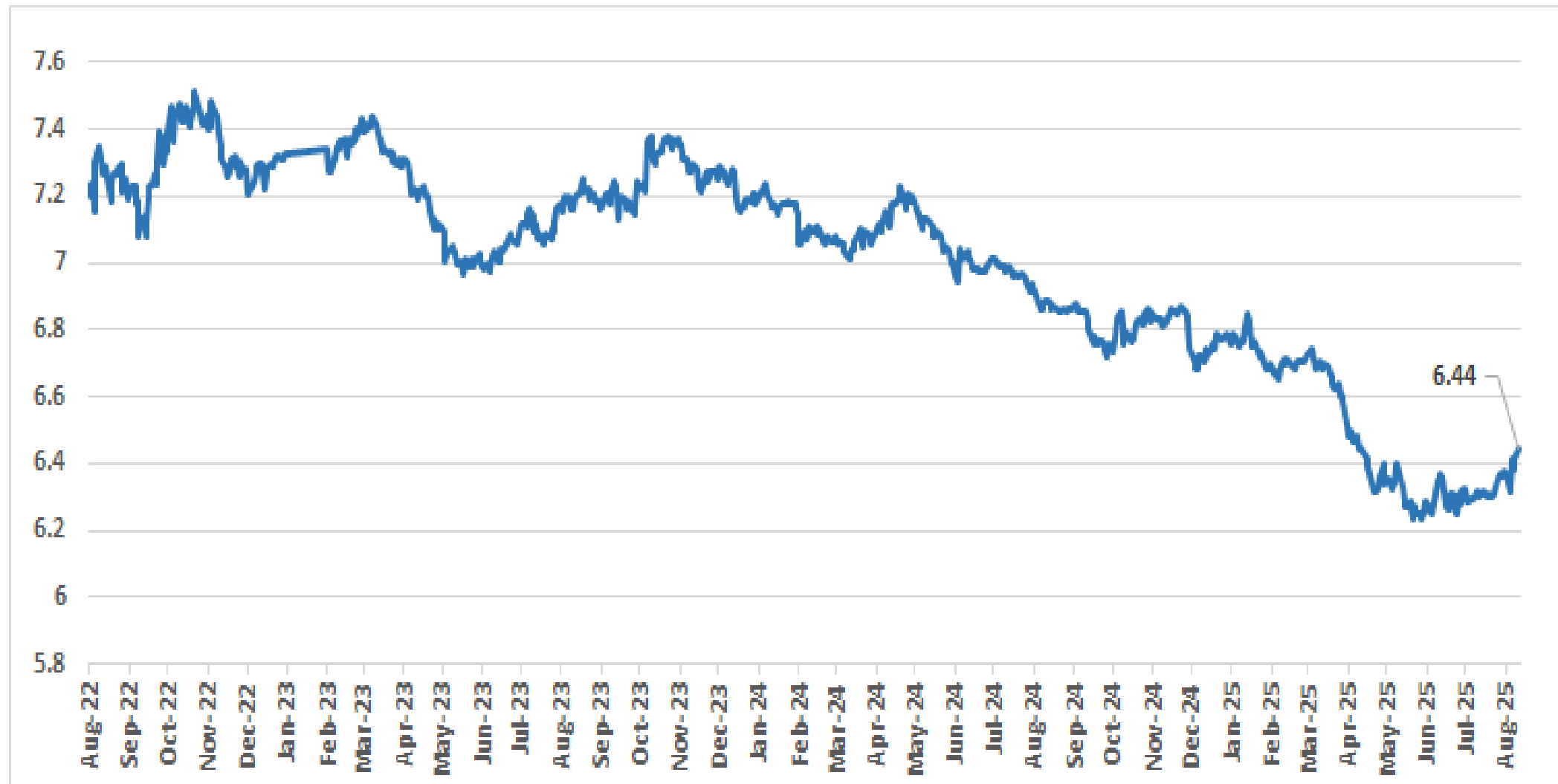


Source: Bloomberg, MOSPI

- CPI inflation rose to 2.1% y-o-y in August from 1.6% in July, in line with consensus expectations, moving back within the RBI's 2-6% target range but still at the lower end of the corridor, led by slightly higher core inflation, while food deflation sustained.

# INDIA 10 YEAR G-SEC YIELD INCHED UP

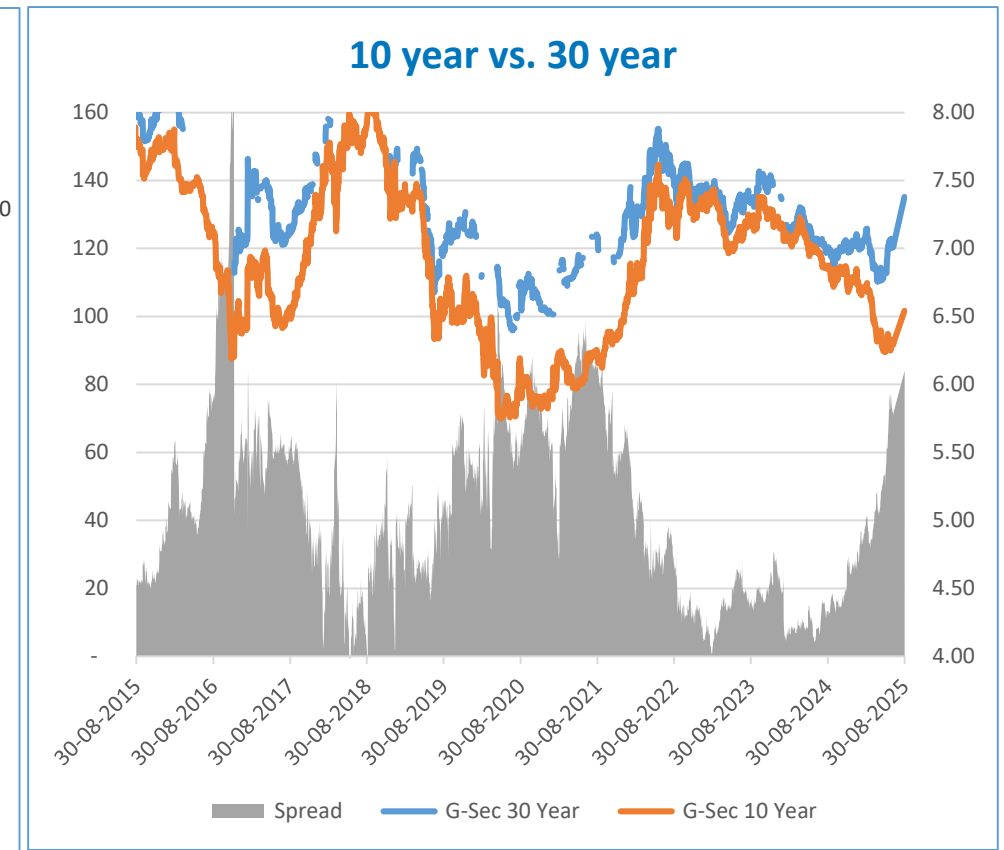
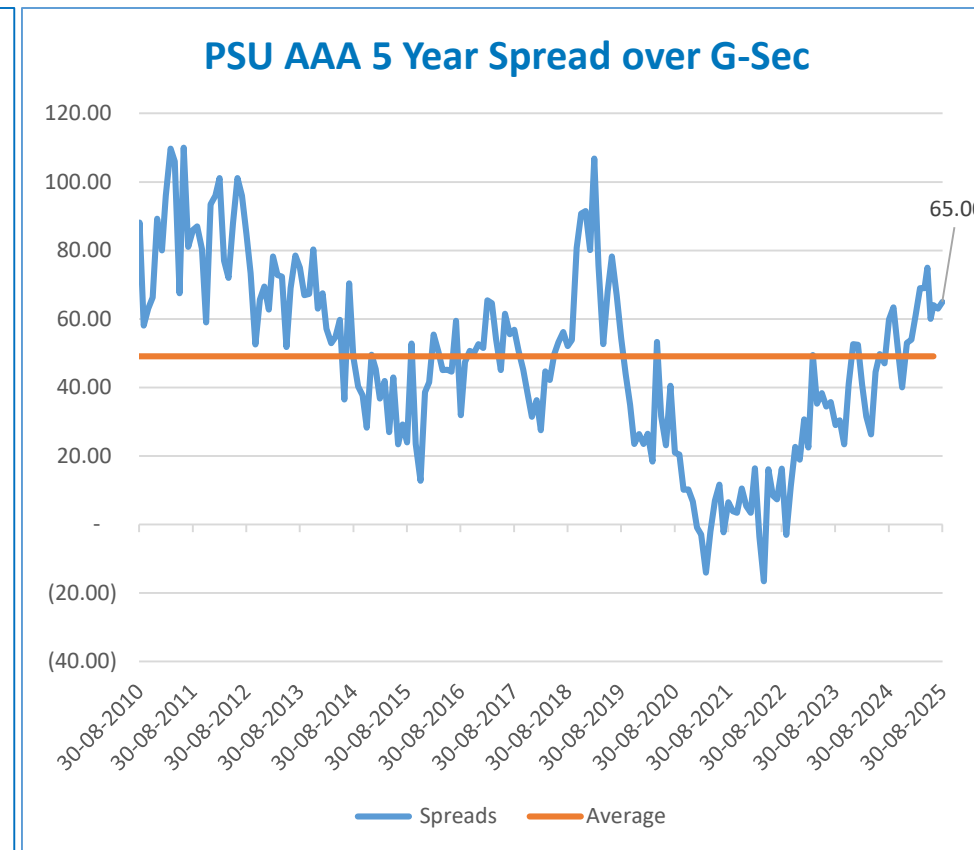
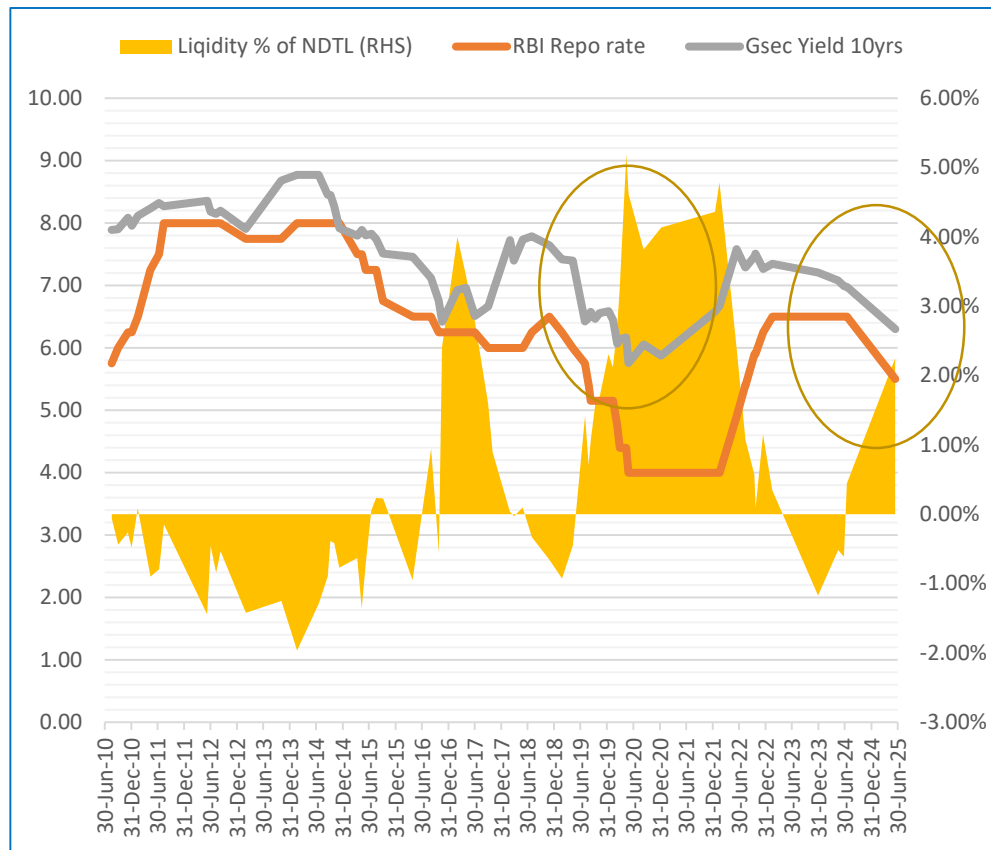
10 YEAR G-SEC YIELD (in %)



Source: RBI, Bloomberg

- India's 10-Year G-Sec yield has inched up to 6.44%, reflecting a mild reversal from recent lows.
- We expect 10-year G-Sec in the range of 6.35% to 6.70% with current steepening to stay put for longer period of time.

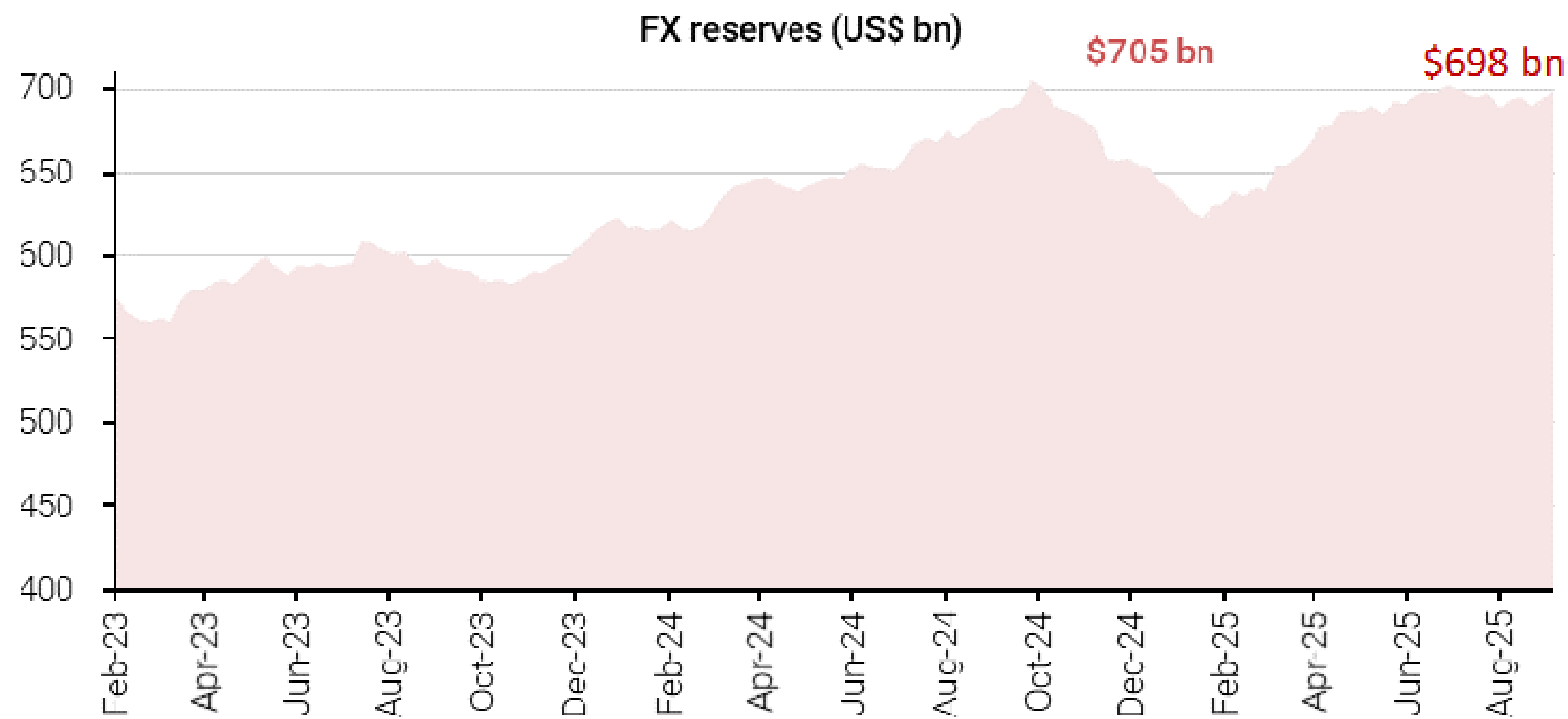
# BANKING SYSTEM LIQUIDITY



Source: RBI, Bloomberg

- Banking system liquidity is in surplus to the tune of 2.3% of NDTL and expected to be positive ~ 2% of NTDL by year end (i.e around Rs. 5 Trn positive in FY 26) which will be higher than the long-term average.
- Corporate Bonds spreads are at elevated levels at around 63bps higher than its long-term average of 49bps
- Long end G-sec spreads ( 10 years vs 30 year ) is trading at 81bps above the historical average of last 10 years of 42bps

# FOREX RESERVE LEVEL REMAINS HIGH



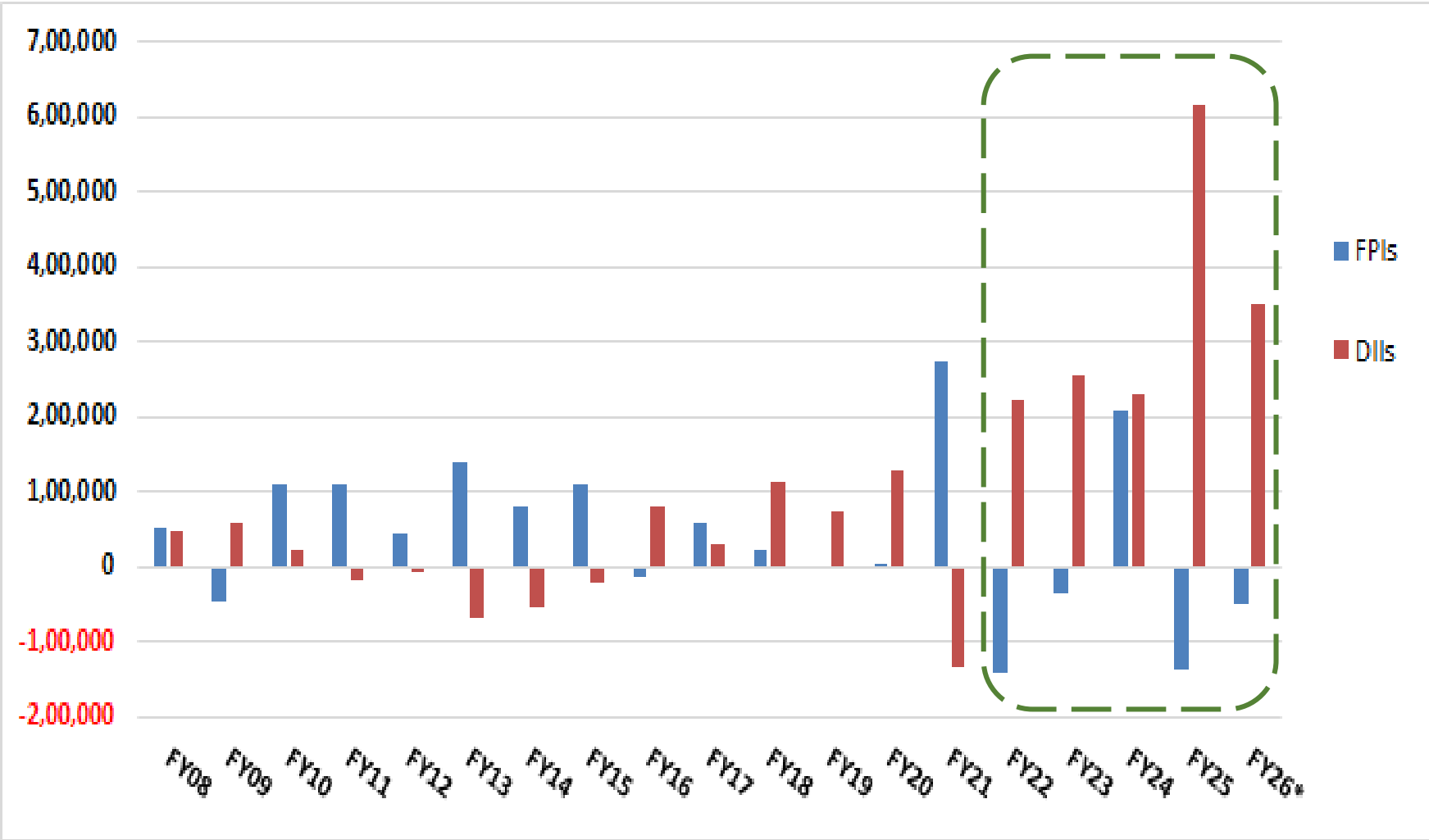
Source: Kotak Institutional Research, RBI, Bloomberg

- India’s forex reserve level remains high and comfortable (11 months of import cover); as of 15 Sep 2025, it stands at \$698 billion, close to its peak of ~\$705 billion.



# MARKET FLOWS

# FPI FLOWS TURNED marginally negative in FY26 so far, DII FLOWS REMAINS ROBUST



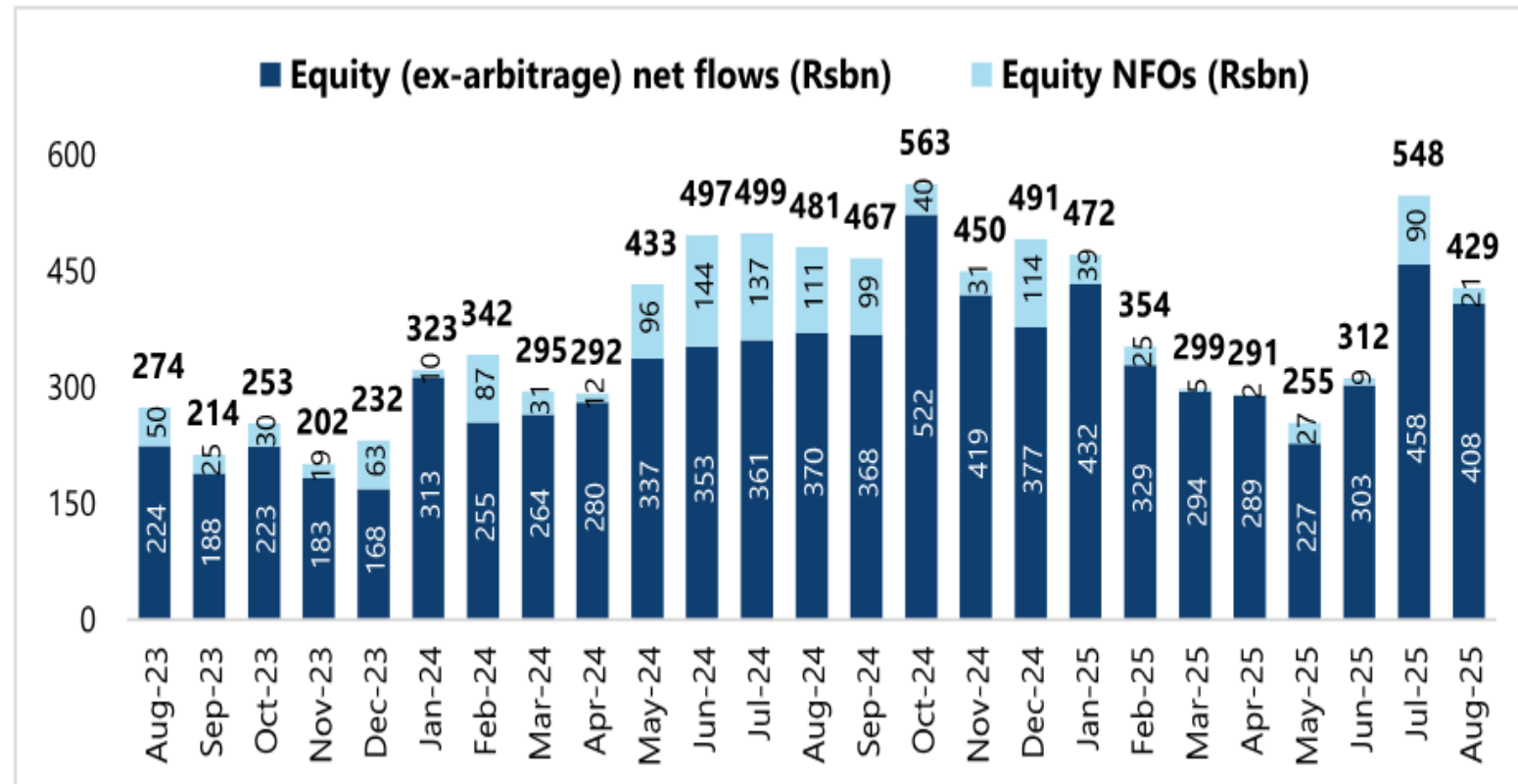
Source: NSDL, Axis Capital	Rs in Crore	
Year	FPIs	DIIs
FY08	52,572	47,794
FY09	-48,250	60,040
FY10	1,10,752	24,211
FY11	1,10,121	-18,709
FY12	43,738	-5,347
FY13	1,40,032	-69,069
FY14	79,709	-54,161
FY15	1,11,445	-21,446
FY16	-14,171	80,416
FY17	60,196	30,787
FY18	21,074	1,13,258
FY19	-90	72,115
FY20	6,151	1,29,301
FY21	2,74,897	-1,34,056
FY22	-1,39,434	2,21,389
FY23	-35,268	2,56,128
FY24	2,08,200	2,31,226
FY25	-1,37,729	6,15,236
FY26*	-50,405	3,51,459

Source: NSDL, BALIC Research, \* As on 12 Sep 2025

- FPIs have been net sellers in FY25, and the trend has extended into FY26, with cumulative net outflows of around Rs. 50 thousand crore in the first 6 months (up to 12 Sep 2025). The continued selling indicates prevailing negative sentiment.
- In contrast, DII flows have remained significantly positive, posting net inflows of Rs. 3,51,459 crore during the same period — reflecting strong domestic investor confidence.

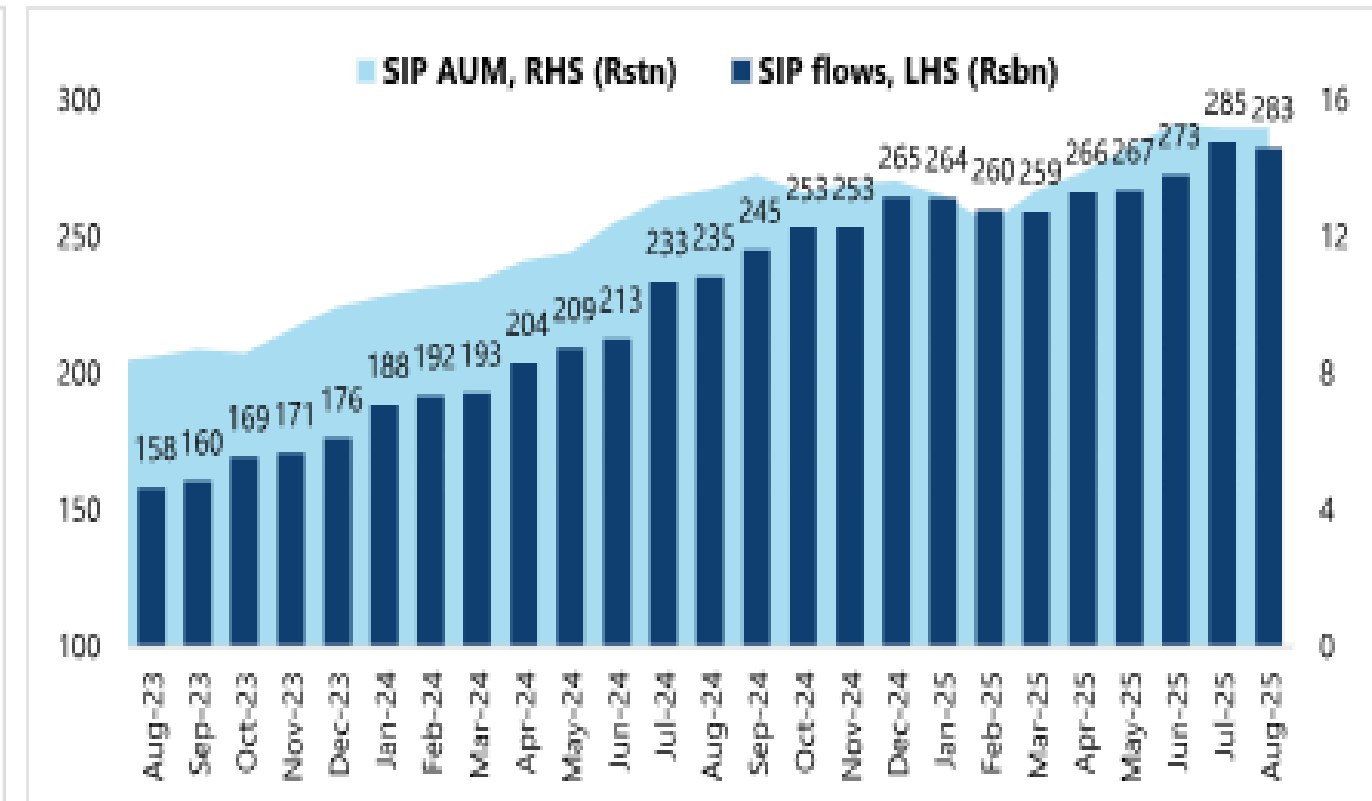
# MF FLOWS – EQUITY FLOWS REBOUND; SIPS PICKED UP MOMENTUM

## FLows IN EQUITY MUTUAL FUND SCHEMES



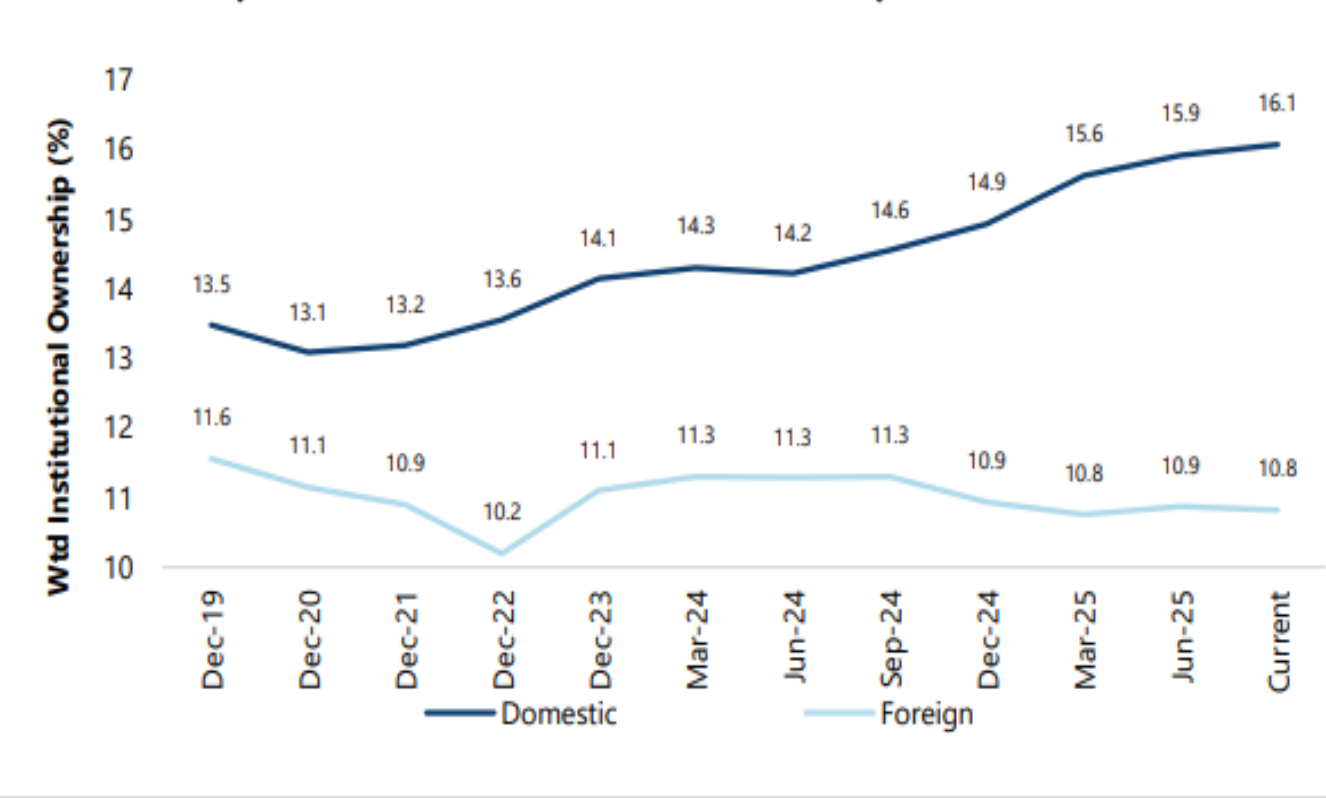
Source: AMFI, Jefferies

## GROSS SIP FLOWS & AUM

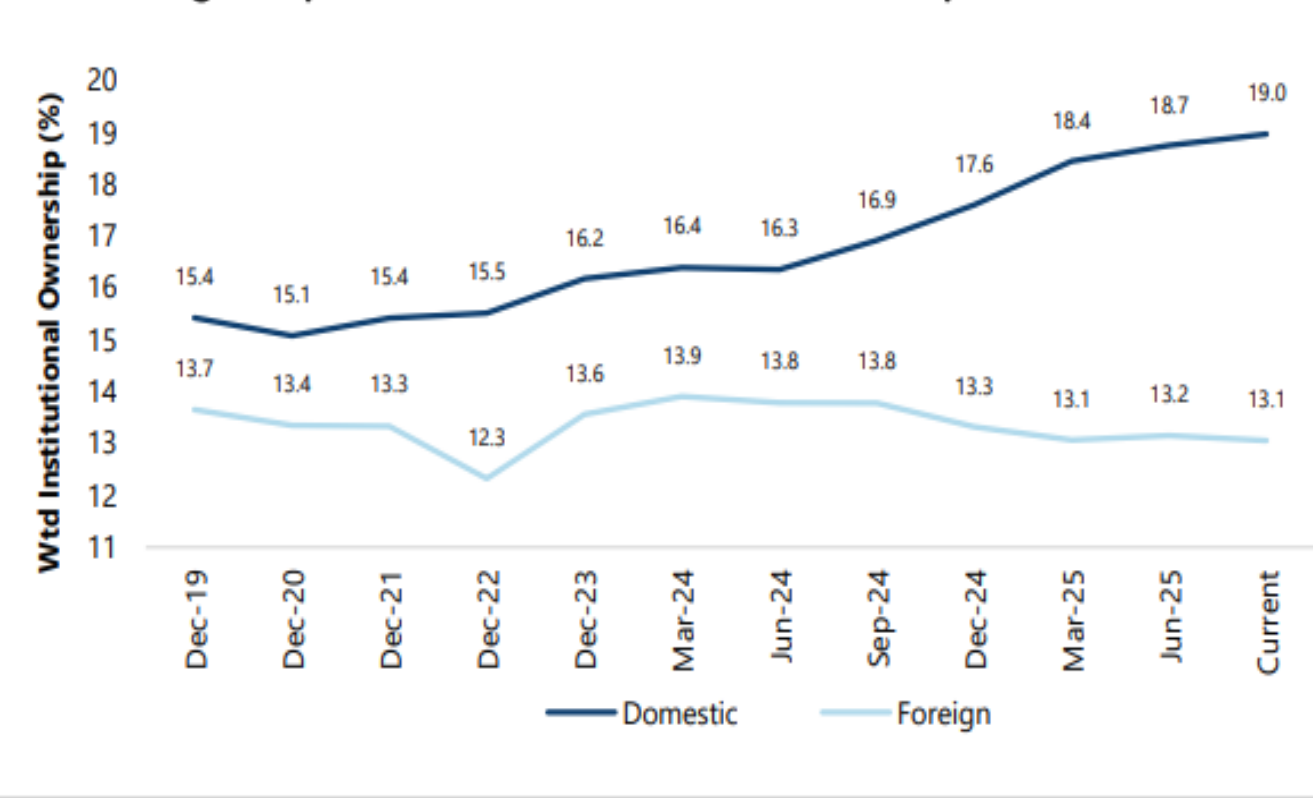


- In Aug-25, net equity flows (ex. arb & NFOs) fell 11% MoM at Rs. 408 Bn
- MF AUM was flat MoM (+13% YoY) at Rs. 75 Tn, with equity AUM up 12% YoY & flat MoM
- SIP flows & contributing SIP A/Cs were flattish MoM at Rs. 283 Bn (+20% YoY) & 90m (+21%)
- Net flows in equity MFs (incl. arb) were down 20% MoM to Rs. 495 Bn

India All caps - Wtd institutional ownership



India Large caps - Wtd institutional ownership



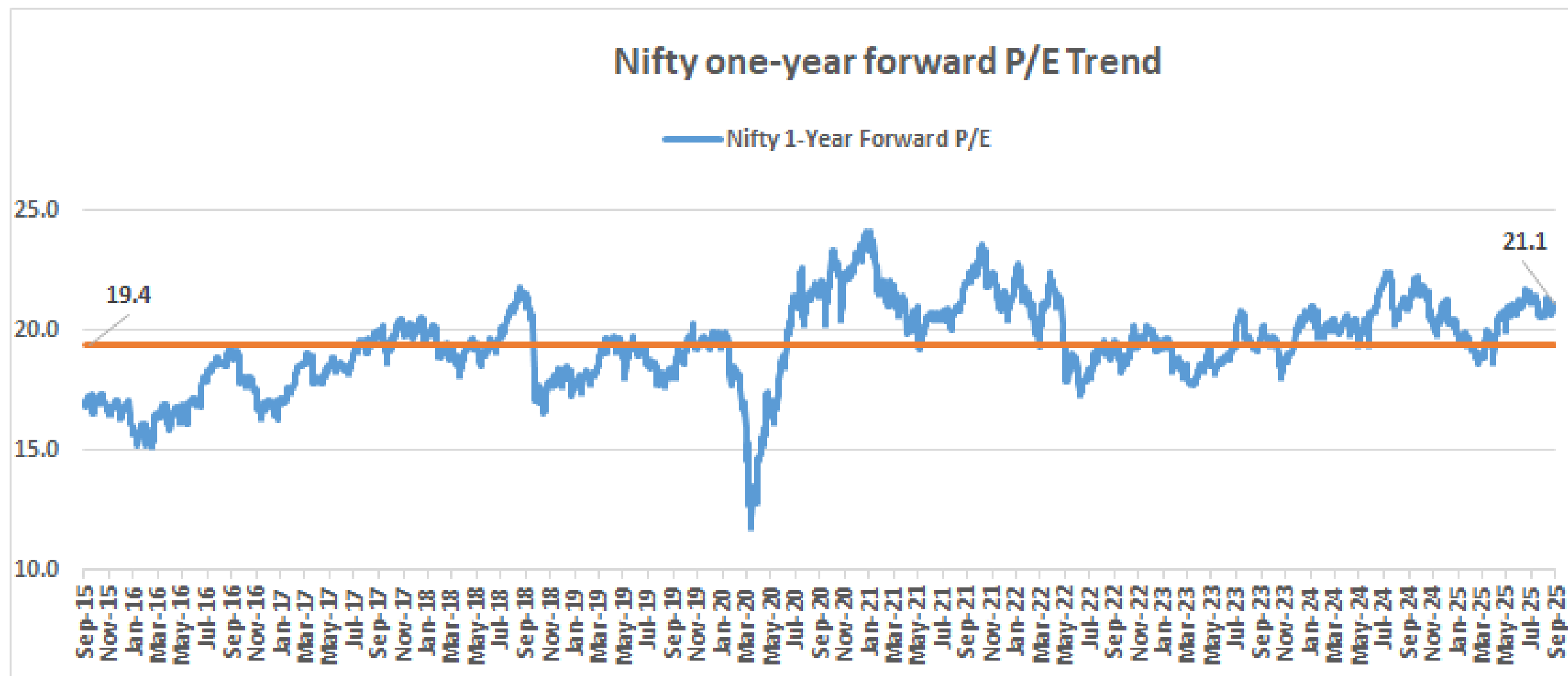
Source: Jefferies

- India – Domestic institutional ownership has been rising



# MARKET VALUATIONS

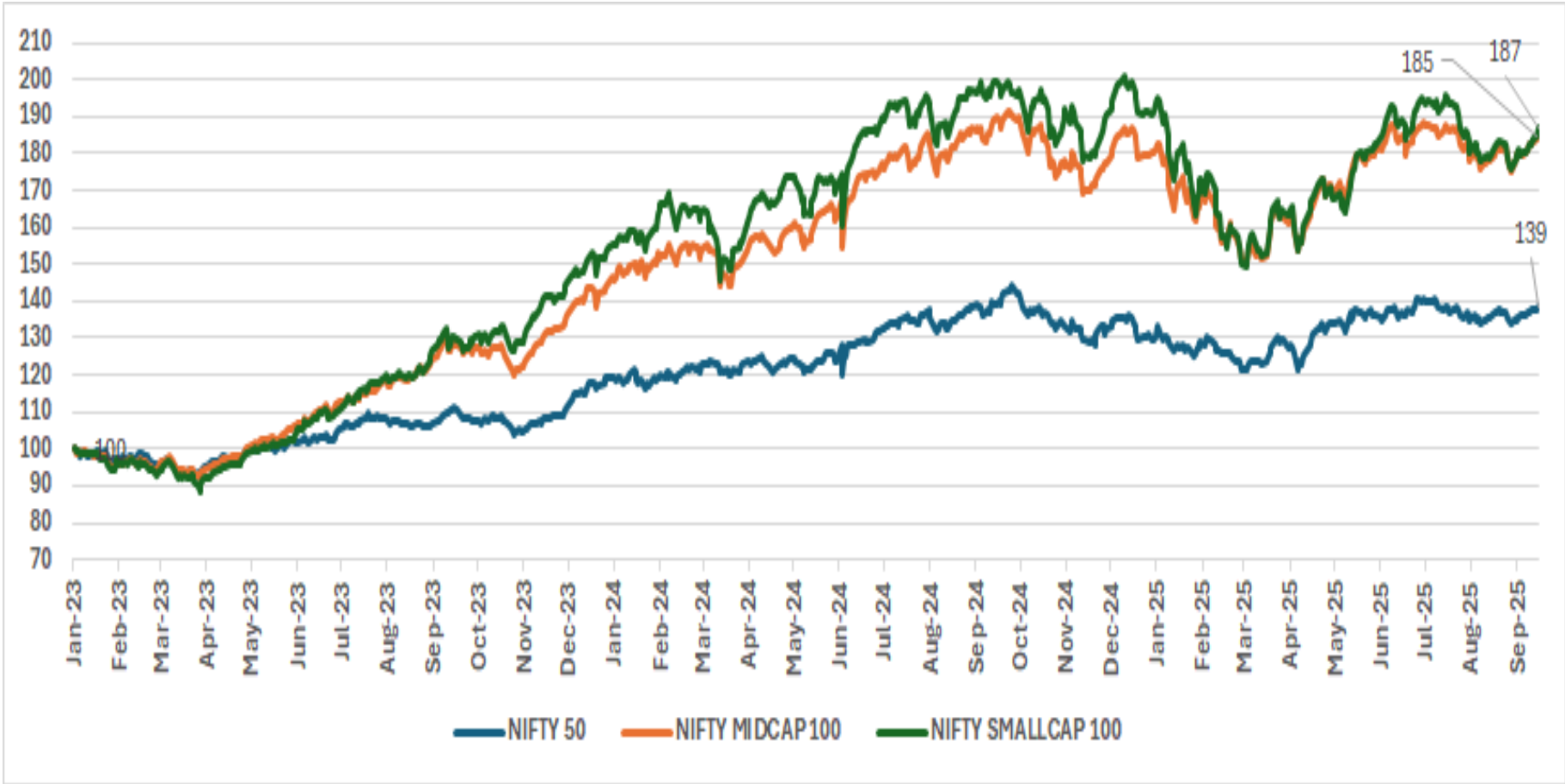
# VALUATIONS STAY HIGHER AMID MARKET RALLY



Source: Bloomberg, BALIC Research

- Nifty 50's 1-Year Forward P/E has inched up following the recent market gains and is now slightly above its 10-year average of 19.4x.

# MID & SMALL CAPS SIGNIFICANTLY OUTPERFORMED LARGE CAP IN LAST 2 YEARS



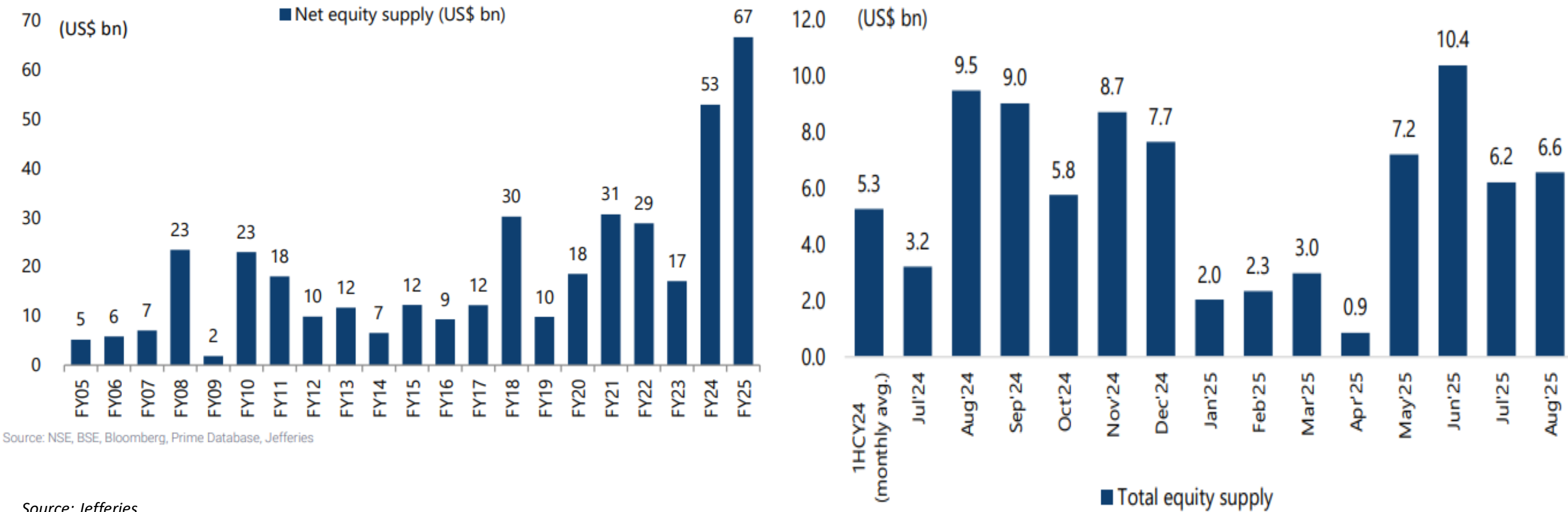
Source: Bloomberg, NSE, BALIC Research, As on 16<sup>th</sup> Sep 2025

Index	P/E (Price/Earnings Per Share)
Nifty 50	21.46
Nifty Mid Cap 100	30.37
Nifty Small Cap 100	30.79

Source: NSE Factsheet as on 31-Aug-2025

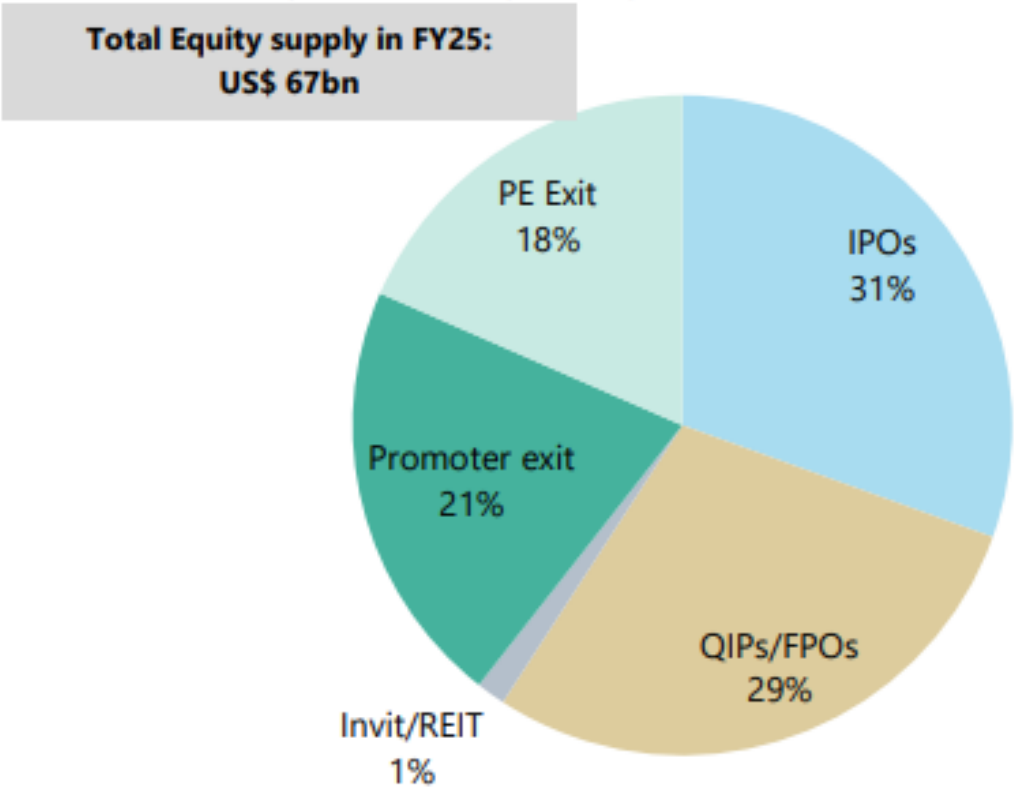
- Mid & Small Cap Indices continue to outperform Nifty 50 by a significant margin since Jan 2023 (>2 Years). However, valuations in Mid & Small Cap segment has been moderated in last few months.
- During this period, Mid & Small Caps are up 85% & 87 %, respectively, compared to a 39% return for Nifty50.
- Mid & Small Cap (on a Historical P/E basis) are still trading at relatively high valuations, with further room for correction.

# EQUITY SUPPLY TO CAP MARKET UPSIDE (1/2)

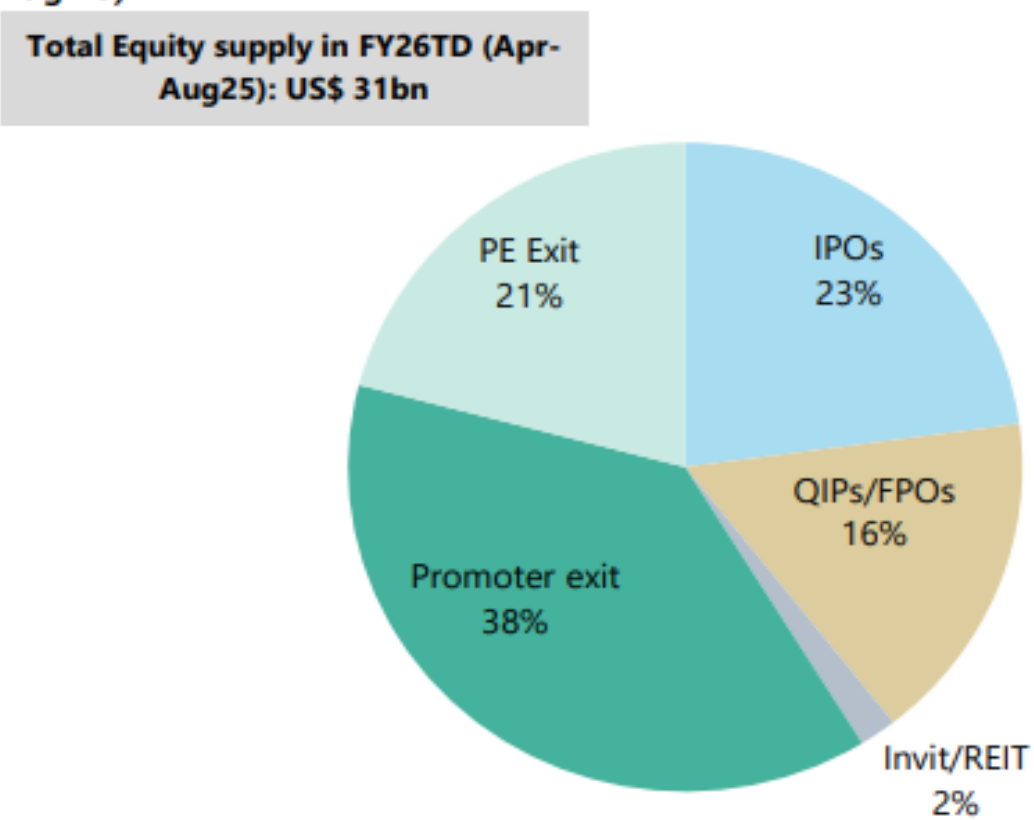


- Equity supply rose 26% YoY to US\$67bn in FY25 on a strong FY24 and reflecting robust market activity.
- After a muted Jan–Apr’25, equity supply rebounded to an average of US\$8bn/month during May–Aug’25

# EQUITY SUPPLY TO CAP MARKET UPSIDE (2/2)



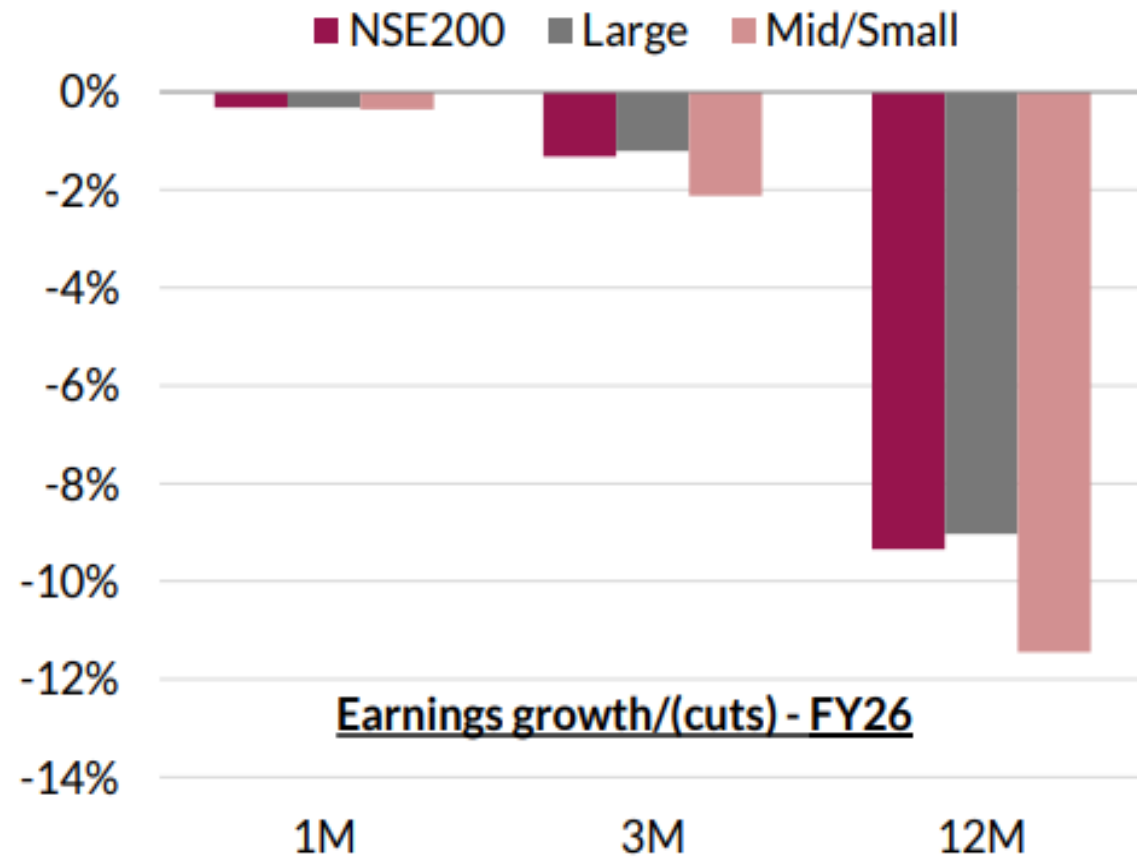
Source: Bloomberg, NSE, BSE, Jefferies



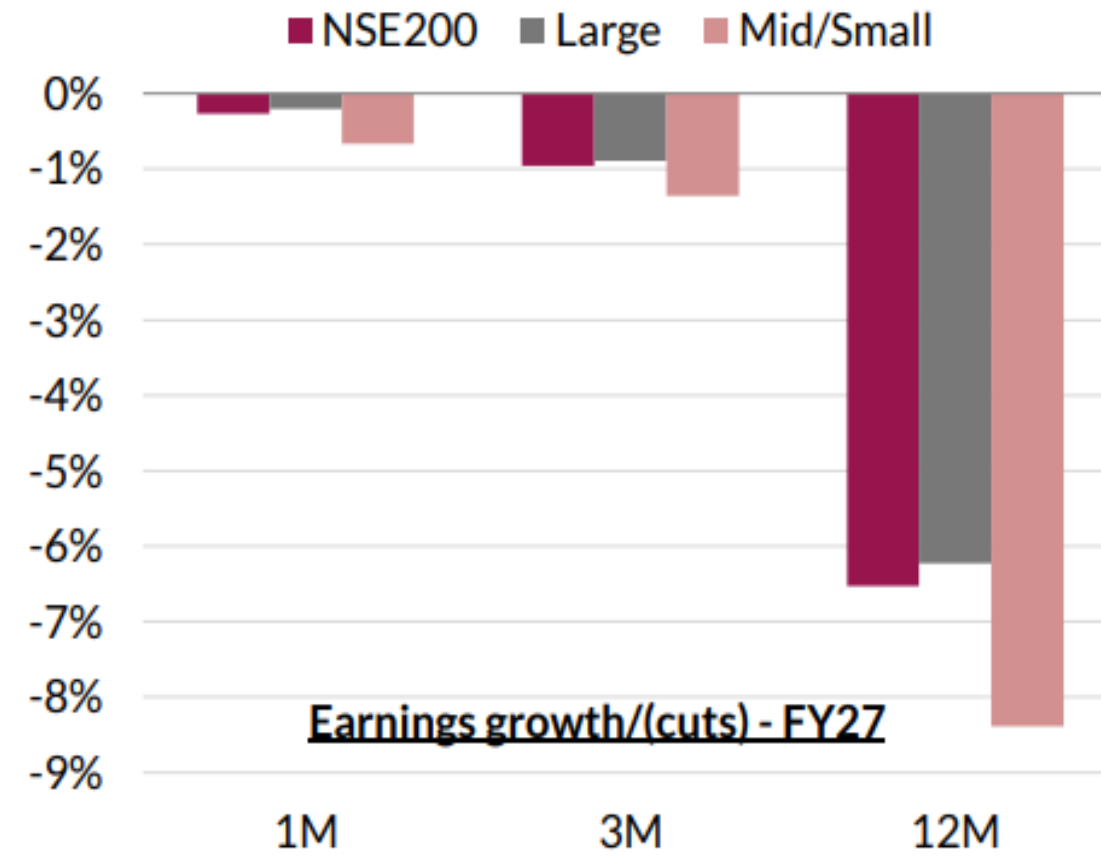
Source: Bloomberg, NSE, BSE, Jefferies

- Sharp market rebound from Mar25 lows has triggered a strong equity supply. 59% driven by promoter/PE exits, FYTD-26 (Apr-Aug'25) equity supply was US\$31 bn.

# EARNINGS GROWTH/(CUTS) - FY26 vs. FY27



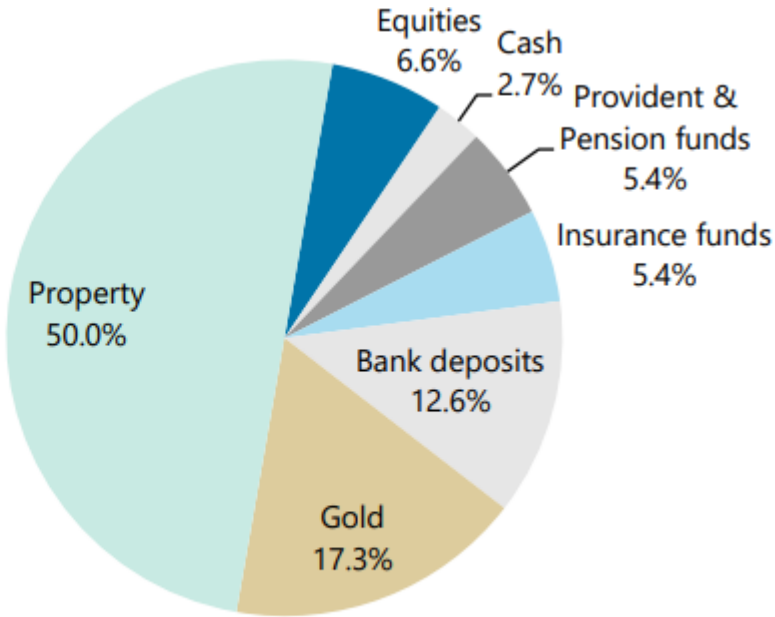
Source: Refinitiv, Axis Capital



Source: Refinitiv, Axis Capital

- NSE200 FY26/27E EPS estimates in Aug saw 0.3/0.5% cuts – the 12th consecutive month of earning cuts.
- The pace of cuts has slowed for FY26/27E EPS, but the spread of cuts remains broad, with 59/56% of firms seeing cuts for FY26/27E. FY27E earnings cuts in Aug were led by mid/small-caps, ending the brief reversal in Jul'25.
- GST simplification could boost consumer demand in the near term, benefiting consumption-based sectors like staples, discretionary (autos), and cement, translating into likely upgrades to EPS estimates.

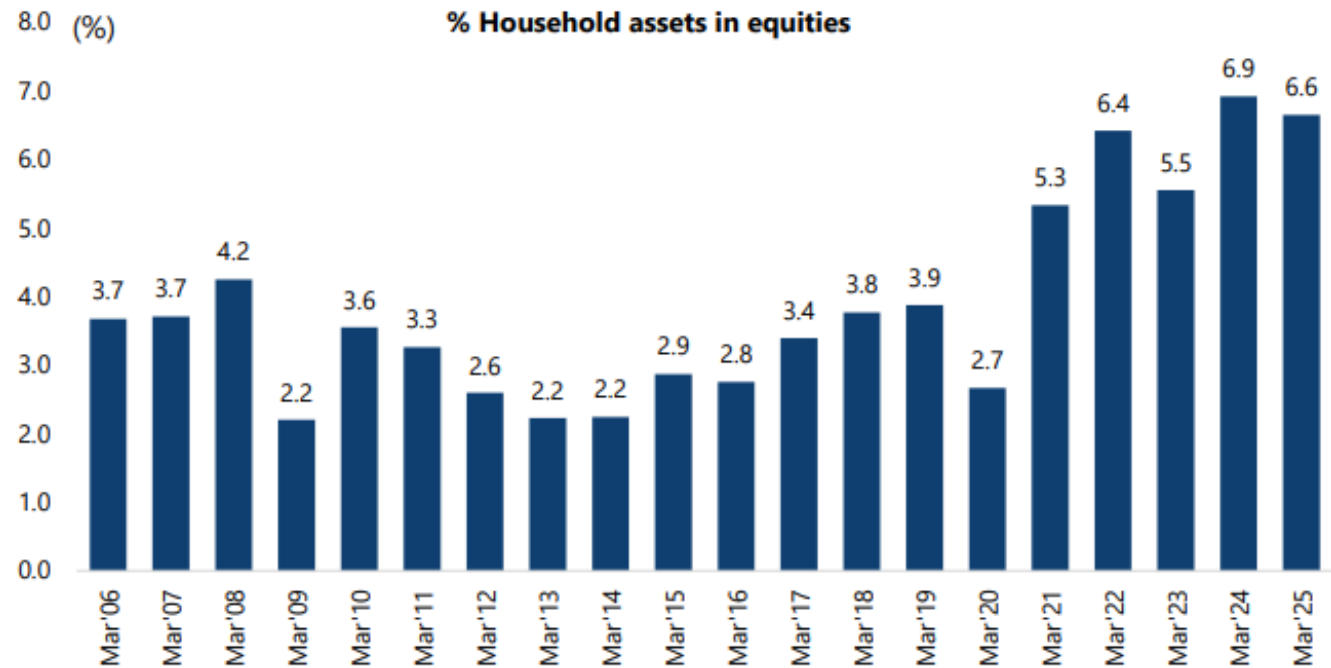
# DOMESTIC SAVINGS SHIFTING TO EQUITIES



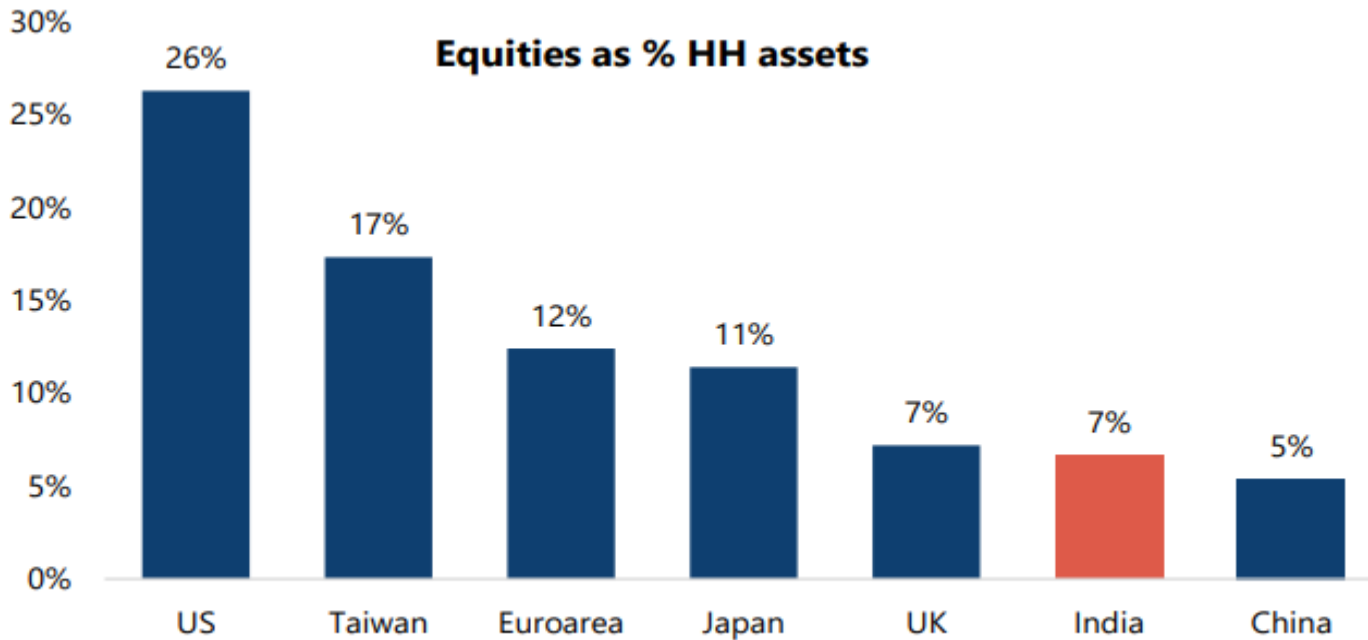
- Equities currently only account for 6.6% of Indian Household assets.
- While the share of equities as a % of household assets has increased by 2.3x over the last 10 years.
- However, HH savings in Equities as a % of Total HH Assets still there is significant headroom to grow further.

Total Indian Household assets Mar'25 : US\$14.8Trn

Source: RBI, AMFI, Jefferies



Source: RBI, AMFI, Jefferies

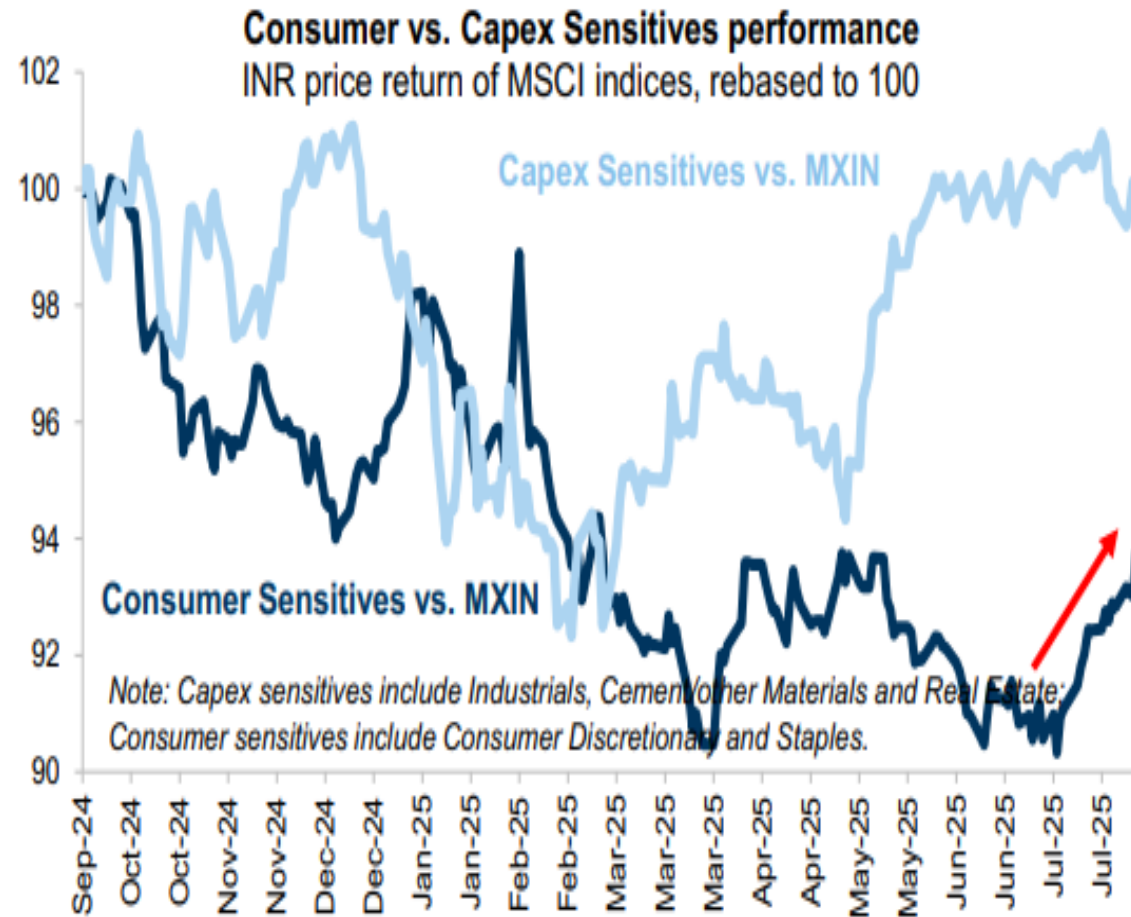


Source: RBI, Federal Reserve, ECB, Eurostat, Bank of Japan, DGBAS (Taiwan), UK National Accounts, Jefferies

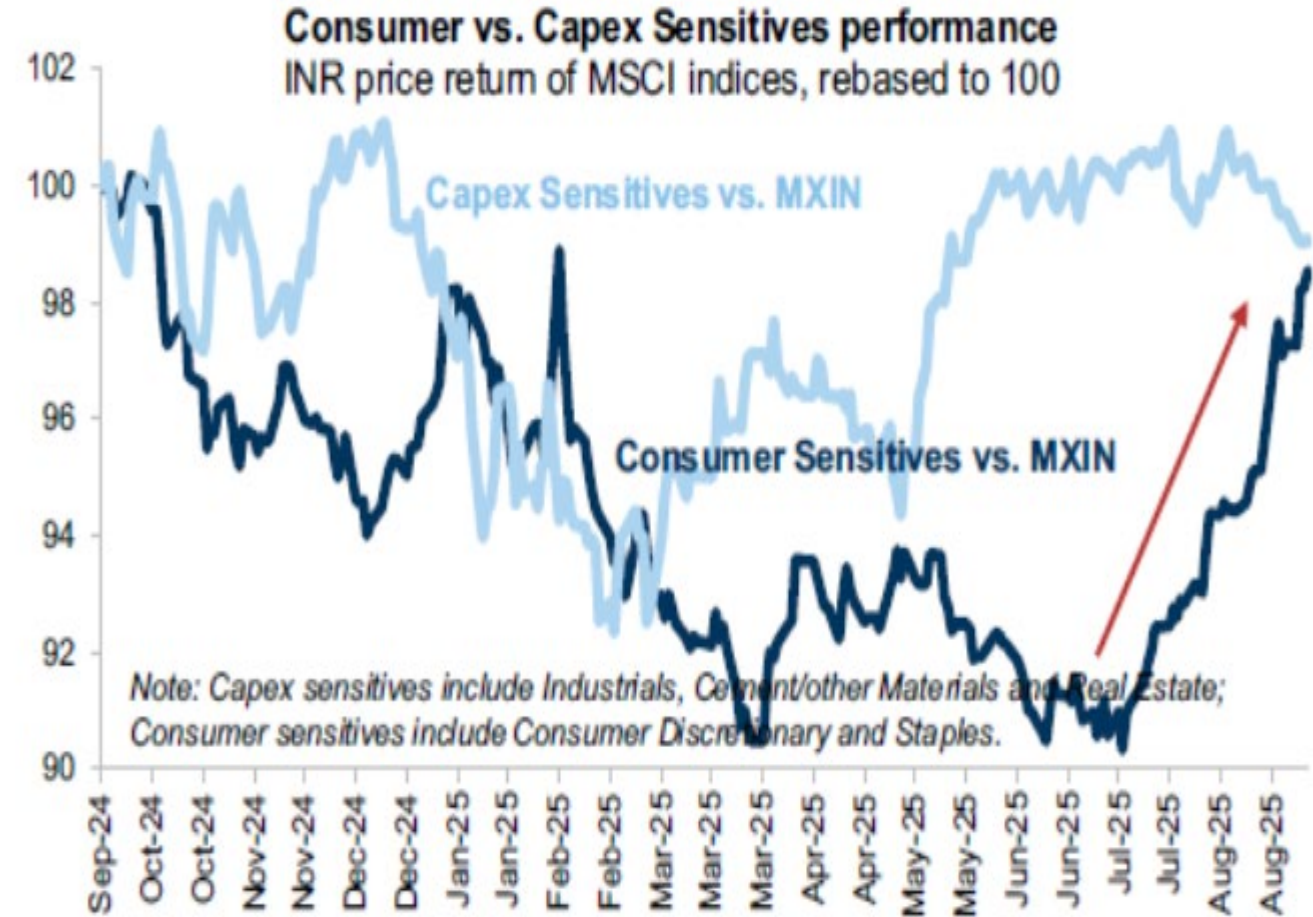


# MARKET OUTLOOK & VIEW

# CONSUMPTION STOCKS GAIN MOMENTUM IN RECENT WEEKS



Source: FactSet, Goldman Sachs Global Investment Research



Source: FactSet, Goldman Sachs Global Investment Research

- Consumption stocks have underperformed the broader markets during the last one year.
- However, this trend is showing some signs of reversal in the last few weeks as consumption stocks have started outperforming driven by tailwinds such as — GST rate realisation, tax cuts, monetary easing, and rural recovery.



# EQUITY MARKET OUTLOOK (1/2)

- Post the tariff shock in early August, Indian markets have gradually recovered in the last few weeks, supported by the surprise GST rate cut announced by PM Modi in his Independence Day speech.
- Since the end of July, Nifty50 & midcap indices are up 1% each, while small cap indices are flat. (as of 12<sup>th</sup> Sep 2025). On a FYTD basis returns are much better at 7% / 13% / 12% for Nifty50 / Midcap / Smallcap indices, respectively.
- On a FYTD basis, Autos (+26%) and PSU Banks (+13%) are the best performing sectors while IT (-2%) is the biggest laggard.

## Global macro

- Globally, despite the uncertainty caused by the US tariff action, asset prices have had a strong run in recent months with Equities (US and many other prominent equity markets), Gold and Cryptocurrencies all trading near multi-year highs.
- Indian equities have been one of the worst performing asset class in the past 12-months, with MSCI India lagging MSCI Emerging markets by ~30% during this time.
- With the US labor markets showing some signs of weakness and the tariff impact on US CPI still fairly limited the US FED is almost certain to cut interest rates in its September policy

## Domestic macro

- India's real GDP grew by 7.8% in Q1FY26 which was better than the consensus estimates. Growth was broad-based with most sub-segments registering an improvement in real growth. However, with inflation running at multi-year lows the nominal growth was sub-10% at 8.8%.
- The impact of the 50% tariff on Indian exports to the US will be felt in Q2 partly negated by the support provided by the GST rate cuts that come into effect from 22<sup>nd</sup> Sep.
- CPI inflation inched up marginally to 2.1% in August vs 1.55% in July but continues to be within RBI's comfort zone.

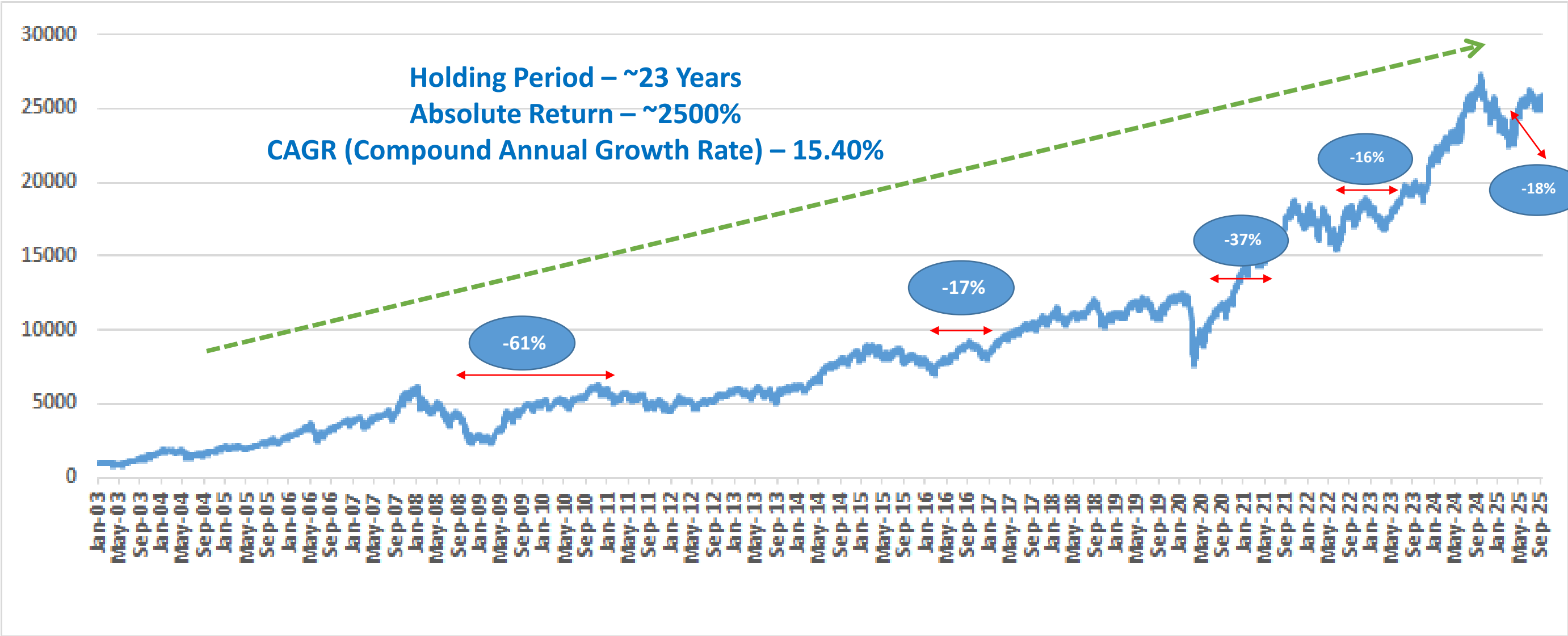


# EQUITY MARKET OUTLOOK (2/2)

## Indian markets

- Equity markets have shrugged off the negative impact of the higher US tariffs and are currently focused on the potential consumption boost following the GST rate rationalization.
- In our view, the proposed GST cuts are meaningful for categories like automobiles, air conditioners and a vast range of smaller ticket consumption item which should translate in higher demand for these products. Overall, the GST move is pro-growth, and the impact should be visible from Q3 onwards.
- On the tariff front, though the impact on the broader markets is limited some sectors will come under severe stress if the situation prolongs. There has been some reconciliatory developments in recent days, and a positive resolution would be a welcome relief.
- Q1FY26 earnings were broadly inline with expectations with the Nifty50 companies reporting a high single digit earnings growth. Earnings growth in Q2FY26 may also be under pressure as some of the demand gets impacted due to the imminent GST cut and the full impact of the higher US tariffs.
- However, we are fairly optimistic of an earnings recovery from Q3FY26 as the positives from GST rate cut and other fiscal and monetary measures take effect. This is already partly visible in the consensus earnings forecasts which have arrested their downward trend in recent months.
- On the flows front, though the FPI flows have been negative in July and Aug some positioning indicators point to a near-term reprieve from FPI selling. India's weight in Global and Emerging market funds is currently near multi-year lows and its relative performance has also been weak.
- DIIs continue to be buyers in the markets as flows in Mutual Funds continues unabated. DIIs are not only absorbing the FPI selling but also the primary market supply in the form of IPOs, Promoter/PE selling, QIPs etc. A slowdown in these flows now poses a significant risk to equity markets.
- Nifty50 is currently trading at ~20.3x one-year forward earnings which is slightly higher than the historical average.
- We continue to maintain our positive outlook for equities with a preference for large caps. A potential earnings recovery, reasonable valuations and continued strong DII flows provide a decent risk-reward opportunity for equities at this juncture.

# EQUITIES (NIFTY 100 INDEX) OUTPERFORMED IN THE LONG-TERM



Source: NSE Indices, BALIC Research, As on 16-Sep-2025

- Equities continue to outperform other asset classes over the long term.
- Despite short-term volatility, the Nifty 100 Index has consistently recovered from major downturns, highlighting the potential of long-term investing.



- **Fiscal Push: Restructuring of GST 2.0** has let to **growth impetus** which can push the growth upwards of **6.5% for FY 2026**
- **Domestic Inflation: Subdue-** GST 2.0 can bring down the Inflation for FY 2026 from the existing projection of 3.1% from RBI.
- **Monsoon:** Monsoon has been above long-term average by 7% (As on 12-Sep-2025) and progressing well. Keeping inflation under check.
- **Banking system Liquidity:** Durable Surplus in the system is to the tune of ~ Rs. 4 Trn on account of various positive measures by RBI.
- **Rates outlook :** We expect 10-year G-Sec in the range of 6.35% to 6.70% with current steepening to stay put for longer period of time.
- **Positions:** Based on the above outlook, we continue to prefer 3-year to 5-year corporate bond segment and long end of the G-Sec curve
- **Key risks :** Growth slowdown, higher commodities price and geopolitical uncertainties.



# THANK YOU

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